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International Strategy Implementation: Understanding of Local Challenges in China

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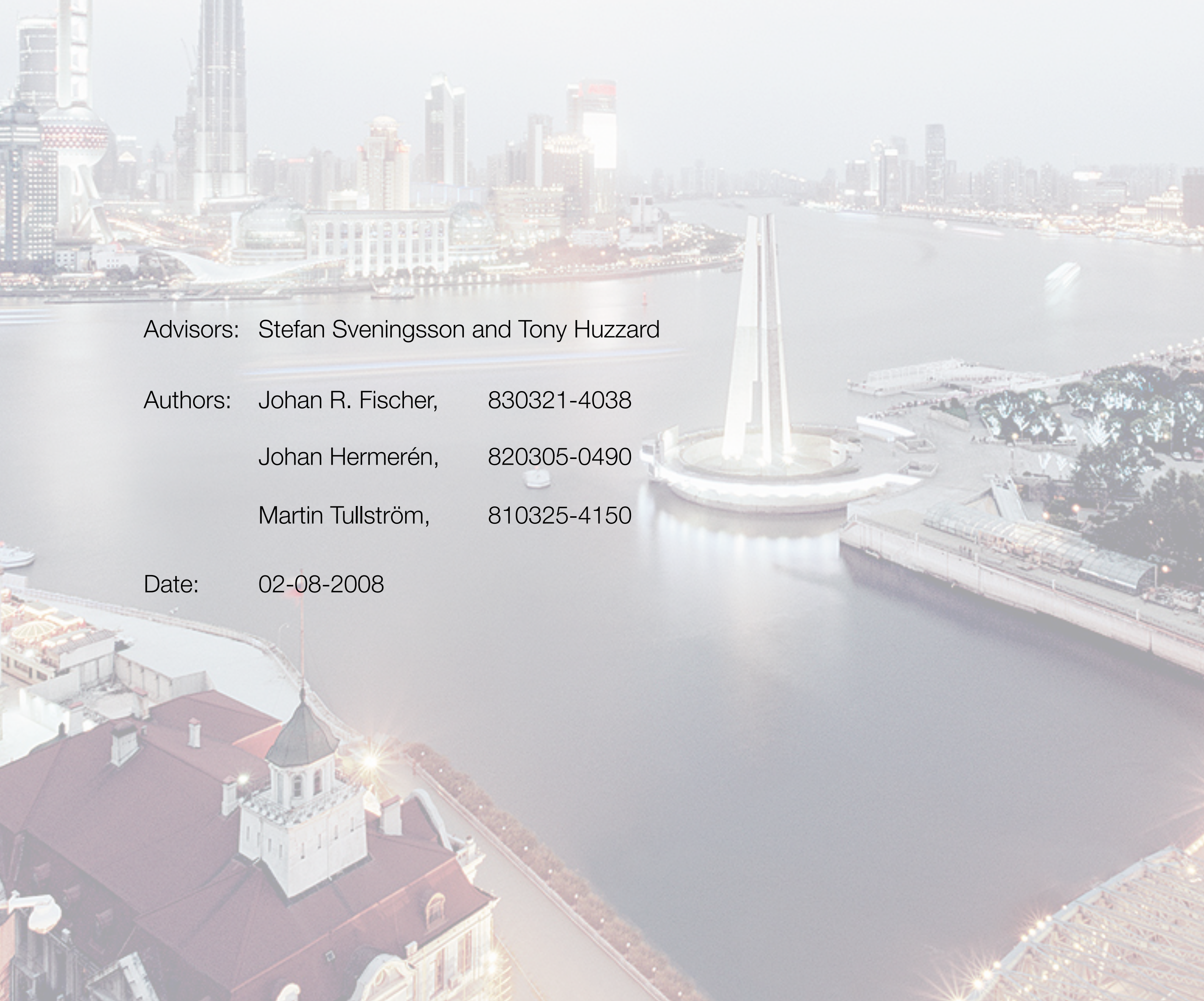

Sammanfattning

Uppsatsens titel:	International Strategy Implementation: Understanding of Local Challenges in China
Seminariedatum:	2008-02-08
Ämne/kurs:	FEKP01 Magisteruppsats, 15 poäng
Författare:	Johan R. Fischer, Johan Hermerén och Martin Tullström
Handledare:	Stefan Sveningsson och Tony Huzzard
Nyckelord:	Strategiimplementering, lokala utmaningar, internationell etablering, Kina, fallstudie.
Syfte:	Uppsatsen har två syften. Det första är att ge en praktisk insyn i de utmaningar som ett svenskt företag kan tänkas möta, samt hur dessa utmaningar hanteras, när strategi implementeras på ett lokalt område. Det andra är att utveckla en generellt applicerar modell som ett konceptuellt bidrag till forskningsfältet om internationell strategiimplementering på ett lokalt område.
Metod:	Denna empiridrivna uppsats är skriven utifrån en kvalitativ och explorativ ansats, där abduktion är anammad för att hitta mysterier och bidra till teoribildning.
Teoretiska perspektiv:	Rationellt planerande, processteorier samt kulturella perspektiv.
Empiri:	Empirin är baserad på 22 intervjuer samt egna observationer på tre stora svenska företag. En del empiri är insamlad i Sverige, medan största delen av empirin är insamlad lokalt i Kina.
Resultat:	Nuvarande teori ger ingen fullständig beskrivning av strategiimplementering på ett lokalt område. Utifrån vald teori har vi genom en mikronivå-studie utvecklat en modell som beskriver en bättre metod för strategiimplementering. Modellen bygger på att ett företag först måste förstå och lära sig bakomliggande orsaker till lokala utmaningar. Detta måste sedan institutionaliseras i organisationen, för att rätt strategi skall kunna utvecklas.

Abstract

Title:	International Strategy Implementation: Understanding of Local Challenges in China.
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Course:	Master Thesis in Business Administration, 15 ECTS Credits
Authors:	Johan R. Fischer, Johan Hermerén and Martin Tullström
Advisors:	Stefan Sveningsson and Tony Huzzard
Keywords:	Strategy implementation, local challenges, international establishment, China, case study.
Purpose:	This thesis has two purposes. First, to give a practical insight into the challenges that Swedish companies might face, and how these challenges are tackled, when implementing strategy in a local area. Second, to develop a general applicable model as a conceptual contribution to the field of international strategy implementation in local areas.
Methodology:	This empirical-driven thesis is written in a qualitative and explorative approach, where abduction is adopted in order to find mysteries and contribute to the forming of new theories.
Theoretical perspectives:	Rational planning, process-theories and cultural perspectives.
Empirical foundation:	The empirical foundation is twenty-two interviews, and also observations at three large Swedish companies. Some empirical data has been collected in Sweden, whereas the major part is collected locally in China.
Conclusions:	Existing theory does not fully explain how to implement a strategy in a local area. Based on our theoretical framework, we have, through a micro-level study, developed a model to describe a better method for strategy implementation. To successfully implement a strategy in a local area, a company have to understand the root causes to local challenges. These understandings must be institutionalized into the organization, in order to achieve a successful strategy formulation and prevent future trial-and-error.

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Lund University School of Economics and Management
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1 Introduction

In this chapter, we present a background to the subject, available current research, our contribution to the chosen academic field, and an outline of the thesis.

The vast growing Chinese economy is a topic of interest both to science and the general public. This is evident by the fact that the Chinese real annual GDP growth rate has been stable on the ten percent level during the last five years (www.chinability.com/gdp 12-06-2007). China possesses the largest currency reserve in the world and after having quadrupled its export of goods in the last seven years, the Chinese are on their way to pass the United States as an export nation (E24 homepage 01-14-2008). As globalization speeds up, developing low-cost countries like China has affected most industries. The production costs in China consist only of about one third compared to Eastern Europe, which is due to the extremely low cost of labor (Mauritsson *et al* 2004). That might be one of the reason why over 400 Swedish companies have established in China, and also why a new Swedish company starts business there every fourth day. This establishing rate has been stable over the last two years (Swedish Trade Council's homepage, 01-14-2008). In 2001, China joined the World Trade Organization (WTO). As a result, the country became more open to foreign companies (Ambler and Wirtzel 2004) and today, the country is the world's largest receiver of foreign direct investments (Björk *et al* 2005). China has a market consisting of one fifth of the world's population, and the middle class, which is of the same size as in the United States, is expected to pass 500 million in the year 2020 (Svenska Dagbladet's homepage 01-14-2008). In China, more than 400,000 students take their degrees in civil engineering every year, and in 2010 China will have more doctors in technology than the United States (Kungliga Ingejörsakademin's homepage 01-14-2008). Companies cannot afford to neglect these facts.

But doing business in China is not always easy. The rapid political changes from a planned economy to market economy have contributed to the view that China is highly complex, in terms of local culture, rules, and legislations. In addition, one has to take into account the country's huge geographical area with regional differences (Ambler and Witzel 2004). For example, the rules and legislations are a real challenge to the automotive industry. In order to set up a car factory and produce cars locally in China, Chinese legislation requires the automotive company to establish a joint-venture with a local Chinese automotive company. This might sound easy to do, but it is not (Völler 2007). However, in textbooks within the strategy field, it is pointed out that in order to succeed with an international establishment, the company has to understand and respond to local differences, such as government regulations (Bartlett and Ghoshal 1989). To an automotive company which wants to set up a factory in China, this information is of limit use. There is a lack of knowledge on how to implement a strategy in a local area. Companies are practicing learning by doing and *trial and error*, and since China differs a lot from Europe, a lot of errors are committed (Völler 2007). Further, figures show that the Swedish companies within the service and retail industries are increasing in number, and they want their share of the growing middle class consumption (Swedish Trade Council's homepage, 01-14-2008). These newly established industries might face different strategy implementation challenges within the Chinese complexity, compared to the traditional manufacturing industries. Such challenges might be new types of communication problems when it comes to service thinking, public relations and marketing (Di Marco 2007). Also, the distance between Sweden and China is of importance. China is 5,600 miles away from Sweden, hence communication and involvement in the operative business is hard to manage.

China can be seen as one of the main catalysts of globalization in recent years. In short time, international business activities in the country has vastly increased. Despite this, the Chinese culture can be seen as traditional and the cultural changes might not catch up with the fast economic development. Previous strategy implementation studies have had more of a western focus and theorizing has been made from a western perspective. These factors combined make China an interesting place for investigating and theorizing development in the international strategy implementation field.

1.1 Current research

The 1960's saw the emergence of planned strategy as a research field. Leading authors included Chandler (1962), Sloan (1963), and Ansoff (1965). Later, Porter (1980) joined the ranks of strategic planning. Focus is on detailed planning, organizational structure, and a clear separation of work tasks between top management and middle management (Chandler 1962, Sloan 1963, Ansoff 1965, Porter 1980). Further, the field of planned strategy highlights the importance of strategic positioning, or fit, in order to obtain competitive advantages. This is done by undertaking careful internal and external analysis, such as Five-Forces analysis (Porter 1980), Boston Consulting Group matrix analysis, and SWOT analysis (Whittington 2001). In the mid 1980's a strategic process perspective developed, where strategy is seen as a complex process and interaction between individuals. Research focus in this field is on how strategic decision-making is carried out, rather than what decisions to take (Mintzberg and Waters 1985, Pettigrew 1985, Johnson 1987, Whittington 2001). In the 1990's, the post-processual field emerged, where such researchers as Balogun *et al* (2003), Johnson *et al* (2003), Jarzabkowski (2005), and Alvesson and Sveningsson (2007) began to study micro-process activities as strategy as practice. Focus is on everyday activities at micro level. Although strategy process studies and micro-level strategy implementation studies are not incompatible with each other, still the two fields are separated (Jarzabkowski and Wilson 2002). However, Mintzberg and Waters (1985) gave clear indications that emergent actions and activities may contribute to a realized strategy divorced from the intended strategy. This can be seen as a bridge between macro and micro level studies, and a way to overcome the macro-micro distinction, in favor of a practice-oriented perspective.

In the research field international establishment, authors like Bartlett and Ghoshal (1989), Delios and Beamish (2004), Grant (2005), and Kotler and Keller (2006) rationally explain purposes of internationalization and how to internationalize businesses. Their theories focus on pre-planned activities, hence show great similarities to the school of planned strategy, as regards scientific approach. The cultural aspect in international establishment focuses on such aspects as psychological distance, absorptive capacity (Holden 2002), and cultural dimension (Hofstede 1984, 1994, 1997). Interestingly, rational international perspectives are to a great extent only dealt with at macro level, lacking lower level perspectives such as Johansson (2004). International perspectives do most often interpret these aspects on macro level rather than at micro level.

Comprehensive studies exist on planned strategy, business internationalization, business and national culture, and process strategy. In addition, the field of strategy as practice has recently enjoyed more attention. Still, no comprehensive interpretative studies cover processual micro-level strategy implementation on local areas. With the starting point in a processual perspective, we will combine these research schools, and add theoretical value by model development for both theoretical and practical use.

Is there any possibility to solve the strategy implementation problems at micro level without getting one's hands dirty?

1.2 The Problem

As mentioned above, China is complex and shows many specific characteristics, yet it has a powerful and growing economy. To foreign companies, establishment in China might lead to great success, but also to troubles and even failure. Numerous business guides offers some relevant advice regarding Chinese business praxis and culture. Still, they are nothing more than business guides with limited use in the long run, lacking crucial insights into business administration. In addition, the fact that there is limited academic research in the practical field of strategy implementation in a local area contributes to the lack of understanding. This can be seen as gratuitous assumptions about China. Brilliant examples are skepticism towards Chinese quality, high employee turnover, extensive copying, and red-tape. Yes, this might be true, but without understanding why these obstacles exist, it is hard to know how to counter them. Because of the existence of a knowledge gap, western companies in China often involve themselves in short term trial-and-error activities in response to challenges. Hence, our intention is to fill this knowledge gap also by investigating underlying factors to these challenges.

1.3 Research Question

Based on the identified theoretical and practical knowledge gap, we intend to investigate the following questions.

What challenges are evident as Swedish companies implement strategies in the local area China?

What degree of understanding do these companies have to these faced challenges?

What implications does this have on strategy implementation in China?

1.4 Purpose

This thesis has two purposes. First, to give a practical insight into the challenges that Swedish companies might face, and how these challenges are tackled and understood, when implementing strategy in a local area. Second, to develop an analytical general model as a conceptual contribution to the field of international strategy implementation in local areas.

To achieve this, we will perform a comparative case study at three international Swedish companies engaged in China. This study will be beneficial to international managers and strategists, who aim to reach an effective strategy implementation in their international business. Further, there is an academic value since current research is not sufficient in international strategy implementation.

1.5 Delimiting the Study

Our study is built on three cases, which are all separate functions within the companies, where only middle management is studied. We do not wish to empirically generalize our findings. Regarding the companies' strategies, they are accepted as stated. Further, we do not wish to evaluate the companies' organizational structure, their control systems or management styles.

1.6 Outline

Chapter 1 – Introduction

In this chapter there is a general discussion of the background to our field of study. Also the purpose of our research will be elaborated on.

Chapter 2 – Methodology

Our methodology will give the reader an understanding of the work process in writing this thesis. The chapter also discusses factors that could have influenced the end result.

Chapter 3 – Theoretical Framework

This chapter presents the theoretical framework that is used for our study. The framework consists of planned strategy theories, process strategy theories, and cultural theories.

Chapter 4 – Empirical Data

The empirical part consists of a general presentation of each case company as well as their strategy and the purpose of their business in China. The chapter also covers challenges that they face in China and how they work to meet these challenges.

Chapter 5 – Analysis

In this chapter our empirical data and our theoretical framework will be tied together by an analytical discussion. Two models, developed by the authors, are presented to visualize the analytical discussion.

Chapter 6 – Conclusions

Our conclusions will be based on arguments conducted throughout this thesis. The conclusions will also constitute the basis for suggestions for future research within our field of study.

Chapter 7 – References

Our sources consist of literature references and other printed sources, such as annual reports. In addition to that, the pseudonyms of all interviewees can be found as well as used internet sources.

2 Methodology

In this chapter, we present our qualitative research methodology. We also discuss how our empirical data will be collected, how we assure high validity, and last, the impact of our own knowledges, experiences, and values.

2.1 Scientific Methodology Approach

2.1.1 Qualitative Methodology

We have chosen a qualitative methodological approach to our study since our intention is to investigate strategy implementation as a practice in China, through a micro oriented interpretive process perspective. To do this, we aim to capture a wide variety of distinctions on micro level by conducting a comparative case study at three companies. We will limit our number of entities to around twenty individuals, where the majority will be conducted in China, together with additional field observations. This variety is crucial in order to get the ability to account for upcoming perspectives in the empirical data acquired (Jacobsen 2002).

The abductive and explorative approaches allow us to maintain an open and in-depth approach. Further, this also enhances our ambitions to add theoretical perspectives rather than to test existing theory.

2.1.2 Abduction

This thesis will be built on three cases with a strong empirical focus. As we analyze our empirical findings, with use of our theoretical framework, theories will be used as inspiration to gain understanding of our study and not merely apply them mechanically. Abduction is the study method that in great extent is used for this kind of investigation, and it is based on interpretation. Abduction begins with empirical data material, just like the inductive method but it does not reject theoretical conceptions. This means that empirical findings can be analyzed in a combination of inductive and deductive approaches, or be used as a starting point from previous theoretical frameworks (Alvesson and Sköldberg 1994). This alternation between empirical and theoretical approaches might result in new theoretical perspectives according to the inductive approach. In addition, one might expect both confirmation and rejection of current theory, as in the deductive approach (Alvesson and Sköldberg 1994, Jacobsen 2002). To further enhance this, the abductive mystery-focus allows us to continuously interpret our empirical data with the help of our theoretical framework. The definition of mysteries is when certain empirical findings are contradictory to relevant theory or at least cannot fully be explained by it. This will give us the possibility to rethink and develop theory and vocabularies

(Alvesson and Kärreman 2007). The research process will be used throughout the thesis and can be summarized with the model presented below.

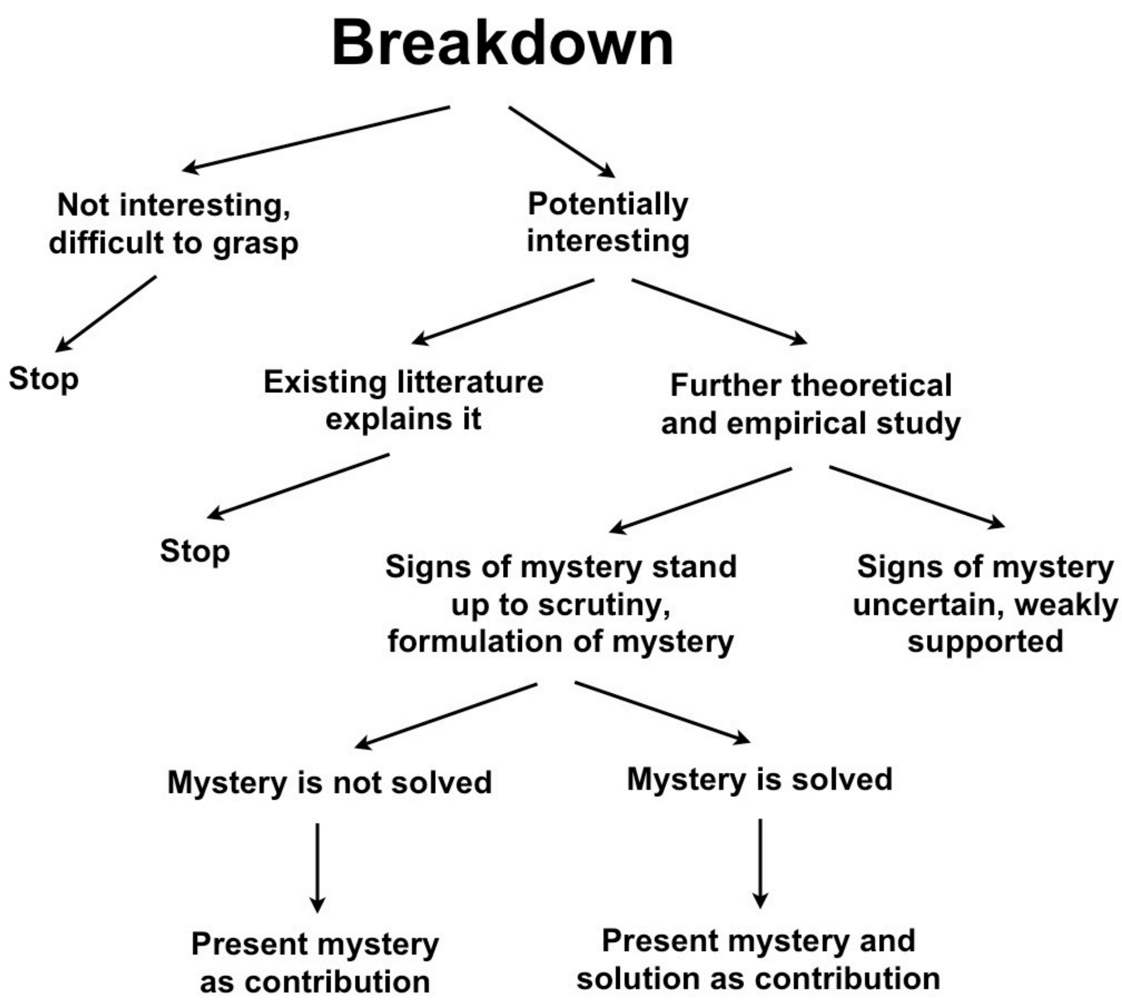


Figure 1: The Research Process: Decision Tree for Mystery-Focused Research (Alvesson and Kärreman 2007)

2.1.3 Explorative Approach

The explorative approach allows us to introduce flexibility during the process of our study. With such flexibility, we allow ourselves to redirect, catch onto, and develop new approaches as the study proceeds. We find the explorative approach highly relevant, due to the limited amount of research available on our specific field of study. Our intention is to generate new knowledge in this relatively unexplored field (Jacobsen 2002).

2.1.4 Comparative Case Studies

To address our problem formulation we have chosen a comparative study, using three case companies, all within different industries and functions, and also with divergent purposes for conducting business in China. We have chosen this width to demonstrate similarities and differences (Jacobsen 2002). Our comparative approach is used to get a good understanding of the phenomenon through different perspectives. We aim for increased credibility by conducting a comparative case study methodology (Bryman and Bell 2007). Hence, this might strengthen our purpose to develop analytical generalizability models for strategy implementation in local areas. The nature of our study is characterized by access problems, due to geographical distance, the sensitive research topic and the research method of comparative case studies. To avoid this problem, the selection of case companies started with ten companies, all to whom we had some access. After an evaluation we chose three Swedish companies, recently established in China, but within different industries and functions. In addition, the selection was based on committed sponsors, whom could assure good access to the research objects.

2.2 Empirical Data Collection

2.2.1 Primary Sources: Semi-Structured Individual Interviews

Our main method of data collection is the personal qualitative interview, which to a great extent is aligned with our purpose. The personal face-to-face interview also creates a sense of proximity and trust between the interviewee and the interviewer, which in most cases leads to a higher degree of trust. The purpose of the face-to-face interviews is to obtain deeper and more detailed answers. The interviewee is also more likely to talk about sensitive topics and less likely to lie or avoid a topic. This will also be reinforced as all interviewees remain anonymous, both internally and externally. Third, the personal interview makes it easier to identify certain directions, areas of interest and behavioral deviations when addressing certain topics (Jacobsen 2002, Kvale 1997). In addition to individual interviews we will take advantage of our presence in China to be able to confirm the interviewees' statements (Bryman and Bell 2003). In practice, we will hang around at the case companies' offices. Since we have access to workspace at the local offices during our stay in China, we can observe behaviors, physical layout, and have informal chats with by-passers. We will also attend informal dinners and nights out with employees at the case companies as well as other western and Chinese companies (Jacobsen 2002), within the industries of packaging, automotive, furniture, metal powder, and local Chinese trading companies.

An interesting validity challenge occurs as we primarily commit ourselves to individual interviews. Our challenge is to interpret the interviewees, which in turn have interpreted their reality and environment (Jacobsen 2002). In our case, we will take advantage of this, since we believe that the individual interpretations are the key to micro-level strategy implementation research. In other words, interpretations will contribute to interesting perspectives to our field of study (Jacobsen 2002).

2.2.2 Secondary Sources: Internal Documentation

In addition to the primary sources, we are using secondary sources such as annual reports and internal company documentation. These sources are used for company description and as complements to the interviews, to confirm primary sources (Bryman and Bell 2007). The secondary sources are also used to better visualize and understand the strategy formulation and communication processes. We are aware that this material is published by the companies and that certain documentation has been partly censored, hence the material is not objective, nor does it reflect the whole context. Finally, we are aware of that the purpose of the material in most cases is not created for our purpose (Jacobsen 2002). In order to get access to internal documents, we have accepted confidential agreements with each company.

To reduce the access issue and increase the reliability, our interviews are performed in the geographical area where the interviewees operate, both in Sweden and in China (Jacobsen 2002).

2.2.3 Practical Principles of Interviews and Analysis

Our semi-structured interviews are centered on themes relevant to our purpose and problem formulation. Preparations consist of formulating around five open major questions. This allows us to be flexible and shift focus to upcoming interesting areas, which each individual may provide. The interviews will be tape-recorded and in addition, notes will be taken. Due to our abductive and explorative approaches, the pre-formulated themes and questions might be developed along with the contingent emergence of interesting topics and perspectives (Alvesson and Kärreman 2007, Kvale 1997). Therefore, the transcription and evaluation of each interview will be done directly after each interview is held. In addition, this helps us capture the details of the interview in more dimensions, such as the mood of the interviewee, and it also provides us with the possibility to schedule follow-up interviews if necessary (Kvale 1997).

When analyzing our data material, we will begin to categorize our transcriptions according to the following matrix system. First, we will categorize transcriptions by cases. Within each case, we will divide transcriptions into local top managers, home managers, Chinese middle managers, and Swedish middle managers. Further, these sub-units will be compared with each other as well as with their counterparts in the other cases. This method will be used in order to maximize the comparative aspects of our case study, hence to increase transferability (Jacobsen 2002, Bryman and Bell 2007).

2.2.4 Selection of Interviewees

We have limited the number of interviews to around twenty, to keep the transcribed data material at a reasonable level in order to match our resources and the research timeframe. The selection of interviewees is based upon two methods for increased dependability. We will start by using the criteria method, where a criterion is formulated to target employees with a close relation to the strategy formulation processes, strategy communication processes, or strategy implementing processes. This criterion is chosen to represent both a width and a depth in these processes. The second method is the snowball method. By transcribing and analyzing interviews directly, we might be lead to other interviewees of relevance (Jacobsen 2002, Kvale 1997).

2.2.5 Research Trustworthiness

The debate regarding the relevancy of validity and reliability in qualitative research does concern our interpretative study. We believe that reality might be described accurately in more than one way, in difference to the positivistic perspective (Guba and Lincoln 1994). Thus, we reject the interchangeable use of validity and reliability in qualitative and quantitative research, that LeComte and Goetz (1982), Kirk and Miller (1986), Mason (1996), and Jacobsen (2002) speak for. In other words, even if validity and reliability is slightly modified to better suit qualitative research (LeComte and Goetz 1982, Mason 1996), we stress that the qualitative interpretative perspective is fundamentally different, hence requires different criteria. To ensure proper trustworthiness and authenticity to our study, we apply Guba and Lincoln's (1994) terminology. The most important aspect to our study is the credibility criteria. The reason is that we have studied a social reality that can be interpreted differently, hence we strive for sound intersubjectivity to obtain proper credibility towards our interpretation.

In order to achieve a high degree of credibility and to receive a wide basis of answers in addition to in-depth answers, our interviews' themes are open. By doing this, our intention is to obtain an understanding of the entire context where our research is positioned. This wider perspective will ensure a high degree of credibility as the risk of missing important aspects are minimized (Bryman and Bell 2007). Still, the risk of ignoring relevant data in favor of exotic aspects is present (Silverman 1993). In response to that, we strive for a high degree of dependability, through intersubjectivity among the authors. To achieve this intersubjectivity, we use a methodological triangulation. In practice, this also means use of multiple theoretical perspectives, data sources, and methodologies (Bryman and Bell 2007). Further, we hope that our findings will strengthen intersubjectivity within the research field, if future research would be developed on our conclusions. Additionally, we must consider the following validity aspects; first, do we get access to relevant interviewees? Second, will the interviewees provide us with correct data? Third, in what stage in the research process do we collect the data?

Our presence at the local offices in China will increase the probability to get access to relevant interviewees. The reason is to observe relationships between employees, talk ourselves into interviews and last, the ability to catch by-passers for comments. The last reason will also confirm or deny interviewees' statements (Bryman and Bell 2007). Also, we are aware that data collection is a process, still as we argued earlier, a comparative study has the advantage of comparing interviewees statements. In addition, we will discuss findings with our case companies, as well as with other companies, to compare sources. By conducting our data collection in China, our access to informal meetings will drastically improve, which will strengthen our possibility to check sources (Jacobsen 2002). As there is no comprehensive previous research in our specific field, we cannot check validity using other similar research. Since we perform an abductive and explorative study, we consider this aspect as a minor issue (Alvesson and Kärreman 2007).

As the majority of our interviews will be committed in China, hence involving interviews with Chinese, we will have to consider the possibility that Chinese cultural aspects will affect answers (Fang 1999, Jacobsen 2002, Mauritsson *et al* 2004, Björk *et al* 2005). In addition, as we will interview both Swedes and Chinese, answers might be biased to favor their own nationalities, if contradictionary matters are discussed (Hofstede 1984, 1994, Jacobsen 2002). We also have to be aware that answers might differ because of internal company rivalry and politicking (Pettigrew 1985, Jacobsen 2002).

2.3 Our Knowledge, Experiences, and Values

Everything we have experienced in life will affect our understanding of the reality, even though our intentions are to be objective. The platform we are standing on, whilst interpreting, could be called our own paradigm, our own conception of the world.

Our interpretations of phenomenon are central in the study. Therefore, it is important to clarify our knowledge, previous experiences, and values, which might affect the end result. As authors, we have paid attention to these as we evaluated our interpretations and conclusions along the research process. The underneath description is written to make it easier for the reader to understand why we have come to certain conclusions.

Language confusion might occur, since none of us is a native English speaker. Also the Chinese interviewees have another mother-tongue, and they might feel uncomfortable speaking English. This contributes to eventual misunderstandings and to minimize this risk, we have tried to speak slow and clear. We have also confirmed their statements by repeating and summarizing along the interview, to make sure that we understood the content. Since the thesis is written in English, and our mother tongue is Swedish, we have asked a professor in English for advice.

Our picture of China is reflected by a Swedish perspective on China, only a small fraction is based on actual, personal experiences. In many cases these views can be biased and built on prejudices. To get a more realistic and fair view, we found it important to spend considerable time in China, to better understand factors that play a critical role, as the companies implement strategies in China.

3 Theoretical Framework

The theory chapter is divided into four major parts. Part one consists of strategy planning and international enterprising, part two presents China-specific theories on culture, part three contains process strategy and learning, while part four consists of theory motivation and criticism.

3.1 Planned Strategy and International Enterprising

In the theory of planned strategy, the major component is rational top-down strategy planning. Basically, strategy should be seen as a product formed by a planning team. The planning team should preferably consist of top management (Chandler 1962). Further, this field also speaks for clear separation of strategy work tasks, where top management should be strategy formulators and the rest of the organization strategy implementers (Chandler 1962, Ansoff 1965). The reason is to avoid confusion and distraction, and this is avoided through multidivisional corporate structure (Chandler 1962). For instance, top management should focus on strategic planning, which consist of long-term visions, target setting, and resource allocation. This work is to be seen as creative. On the other hand, middle management, on divisional and business unit level, should focus on tactic and activity-based issues, in other words strategy implementation. Strategy implementation is rather programmed and leaves no room for creativity (Chandler 1962).

Theories of business internationalization most often explain internationalization in rational models. Plans of international establishing are often referred to as entry mode in business literature. Before going international, or expanding internationally, a purpose must be identified. This range might span from conquering new markets to saving costs through locating activities to low cost countries. Which countries to enter and time of entry must also be considered. These choices must be based on local infrastructure, supply of cheap and skilled labor, suppliers, competition, and so on. In addition, time of entry must consider first mover advantage, the degree of knowledge spillover, and upswings or recessions in local business cycles. Companies must also consider what products to launch and if product modification is needed to suit the local market. Several options exist when entering new local markets. If the entry is made by an equity mode of investment, companies might enter through joint ventures with local companies, acquire local companies or wholly owned subsidiaries. On the other hand, if the mode of investment is non-equity, entry modes might involve exporting, franchising or licensing (Delios and Beamish 2004).

Further, international management is both costly and difficult, hence internationalization must involve synergies and cost reduction. To obtain this, companies might follow one of four mechanisms (Bartlett and Ghoshal 1989). The first mechanism is the *decentralized federation*. Every local organization is rather self-sufficient and rather autonomous from the international headquarters. Few activities are centralized and the level of coordination between local organizations is low. Local organizations are free to adapt to the local environment (Bartlett and Ghoshal 1989, Pralahad and Doz 1987). The Second mechanism is the *coordinated federation*, which is organized similar to the decentralized federation. Although, local organizations are more bonded to the home organization through standardization, coordination and control systems. Core competences, processes, technologies and products are to a high extent developed centrally, while other activities are carried out locally (Bartlett and Ghoshal 1989). The third mechanism is the *centralized hub*. Here, local organizations are rather unimportant, as all activities are standardized. Centralization is needed for example to ensure quality and speed up learning processes (Bartlett and Ghoshal 1989, Porter 1990a). Local organizations do only implement given directions (Bartlett and Ghoshal 1989). The fourth mechanism is the *integrated network*, where local organizations have a close relation with their headquarters, and in addition, to other local organizations worldwide. With a low level of centralization comes a complex coordination of core competences, processes, technologies, products, and people between the company's organizations. This requires some standardization.

Companies must also understand and be able to properly respond to local differences, for example differences in market structure, customer needs, buying behavior, substitutes, distribution channels, infrastructure, supply structure, and government regulations (Bartlett and Ghoshal 1989, Porter 1990b, Trompenaars 1993, Hofstede 1984, 1994).

3.2 Cultural Characteristics in China

Confucianism

The confucianism is the most dominating philosophy in China. It was founded in about 500 BC, by a philosopher called Confucius. He became famous for his wisdom and also today, people are living through his principles of good behavior, moral, and harmony. The confucianism has influenced the Chinese way of living, and created norms for the society and for social values. Confucius meant that people are goodhearted, and with the starting-point in this benevolence and goodness, he created an ethical system. His intentions was to teach and share his wisdom, focused on following old rituals and rules, to establish calmness and harmony, where everybody knows their place (Feng and Shi 2001).

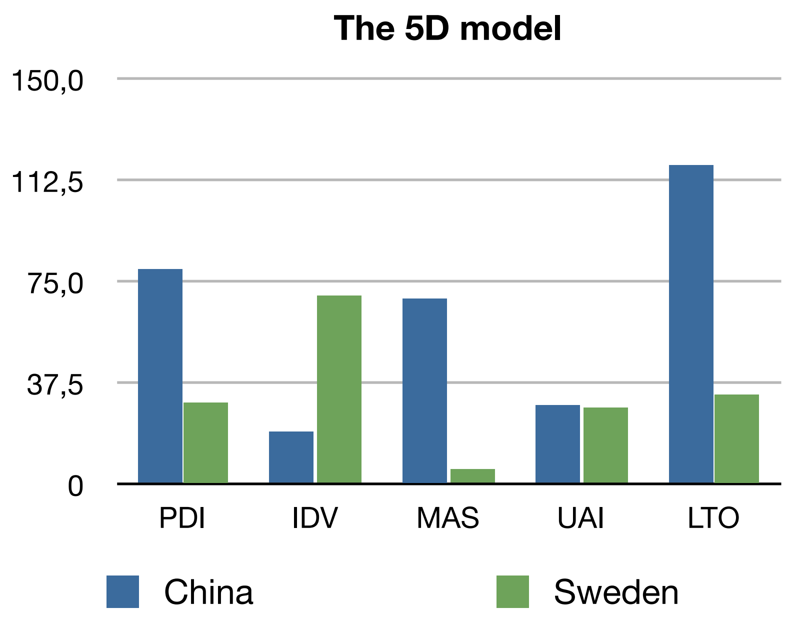
Guanxi

China's culture is very different compared to any western culture. One aspect is the concept of guanxi, which has been a natural part in the Chinese society and business life for more than 2,500 years (Chen and Chen 2004). The Chinese business culture is built on connected networks, both socially and economically, which can be translated by relations or contacts (Bjerke 1998). But the concept is far more complex. To be able to reach guanxi, mutual trust among both parties and awareness of each other's obligations towards one another is important (Fang 1999).

Trust is the first fundamental factor of the relationship, which needs to be established before business can be initiated (Hwang and Staley 2005). It takes time to build trust, thus it grows over time as guanxi is developed (Bjerke 1998). When guanxi is reinforced, more business can be conducted, often without formal contracts. Everyone is keen on keeping good relationships since a failed guanxi will lead to bad reputation and prestige of the individual, effecting negatively on career opportunities. And since relationships are tightly connected in several networks, including families, people are very careful with their guanxi (Hwang and Staley 2005).

Cultural Dimensions

A definition of national culture is that a group of individuals are collectively programmed through history, and their mental conception is part of national culture (Hofstede 1994). The following model contains five major dimensions of national culture, which are *power distance, individualism versus collectivism, masculinity versus femininity, avoidance of uncertainty, and dogmatic versus pragmatic perspectives* (Hofstede 1984, 1994). The indexes of cultural dimensions for Sweden and China differ, as shown below (Figure 2).



PDI Power Distance Index
IDV Individualism
MAS Masculinity
UAI Uncertainty Avoidance Index
LTO Long-Term Orientation

Figure 2: The 5D model by Geert Hofstede (www.geert-hofstede.com 01-02-2008)

Power Distance

The dimension of power distance is a measure to what extent the society accepts inequality and injustice (Hofstede 1984). Power distance can also be applied when measuring the relationship between managers and subordinates (Hofstede 1997). Countries with a low degree of power distance, such as Sweden, are often characterized by democracy and consensus, whereas a higher level of power distance often stands for corruption, injustice, and other non-democratic attributes (Hofstede 1984). China's overall high degree of power distance can be explained by a cultural acceptance of unjust relations within society (Chow *et al* 1995), which roots in Confucianism. Basically, this is a mutual understanding between superiors and subordinates. Subordinates must show respect to their superiors, while the superiors must offer security and take care of their subordinates (Hofstede 1994).

Individualism versus Collectivism

An individualistic culture is recognized by the priority of individual interests and personal achievements. In business life, individualists tend to prefer task-oriented challenging work, and autonomy, in order to achieve personal goals. On the other hand, collectivists might act for the better of a group rather for him or her. (Hofstede 1997). The Swedish culture is rather individualistic (Hofstede 1984). In China, which is a collective culture, the family can be seen as a society in miniature. The Chinese family strives for stability and harmony (Chow *et al* 1995). In order to obtain stability and harmony, every Chinese must keep their *face*. To keep the *face* means to earn respect through fulfilling obligations towards the family and the surrounding environment, which in practice means maintaining a sound guanxi (Fang 1999). Hence, Chinese are very loyal to their families, and follow the unwritten rules of Confucianism (Hofstede 1994). This cultural dimension is closely correlated to power distance.

Masculinity versus Femininity

The masculine Chinese culture has a mindset that the strongest one is the winner. Performance is important and materialism is a good way to show status. Feminine cultures stand for social values, where decisions and conflicts should be handled by cooperation and negotiations (Hofstede 1984), which can be seen in Sweden. In a business organization, powerful leadership and authority characterize the Chinese masculine culture while the Swedish feminine culture is based in consensus and invisible leadership (Hofstede 1997).

Avoidance of Uncertainty

According to this dimension, both China and Sweden have moderate avoidance of uncertainty, which is a measurement of to what extent the society feels comfortable with insecurity and ambiguity. Countries with low uncertainty avoidance have a more relaxed attitude and show more tendencies of being in control (Hofstede 1984). In China the moderate uncertainty avoidance can be seen as the Chinese people's commitment to traditions (Chow *et al* 1995), for instance Confucianism. Chinese people, tend to like rules and directives to get a feeling of a predictive future. (Hofstede 1997).

Dogmatic versus Pragmatic Orientation

A dogmatic culture is short-term oriented while a pragmatic culture is long-term oriented. Hence, dogmatic cultures are focused on the present while pragmatic cultures are more open for changes and investments that will deliver results in a distant future. In addition, the latter shows greater focus on respect to traditions, personal stability and personal protection (Hofstede 1997). Close family relations can explain the long-term thinking in the Chinese culture, where the children are expected to support their families in the future (Hofstede 1994). As Confucianism says, Chinese people must be eager to learn, work hard and be patient (Feng and Shi 2001).

3.3 Process Strategy and Learning

The field of process strategy sees strategy as a less rational phenomenon. Strategy can be interpreted as a separation between strategic planning and strategic thinking. Strategic planning should be analytical and carried out by top management. It should also be supportive to the entire organization. On the other hand, the rest of the organization should represent the strategic thinkers (Mintzberg 1994). As these people work close to operations and get their hands dirty, they possess great combined knowledge about company activities, while top management lacks this awareness (Mintzberg 1987). Mintzberg quoted:

"Smart strategists appreciate that they cannot always be smart enough to think through everything in advance." (Mintzberg 1987)

Strategic thinking should be intuitive and creative to contribute to the strategy process (Mintzberg 1994). The creative work in the lower levels in the organization might result in emerging strategies. Emergent strategies are opposite to planned, deliberate strategy, not planned in detail, but emerge *en route* (Mintzberg and Waters 1985).

The strategy process itself is to be seen as an irregular pattern, or a multidirectional stream of activities. Actions and activities should be undertaken both at individual and collective basis (Pettigrew 1997). These non-linear processes can in other words be described as politics at micro level within organizations (Pettigrew 1985), which are not rational and derives from cognitive human behavior (Pettigrew 1985, Johnson 1987). The strategy process is a continuous, constantly adapting process, without a beginning or an end (Mintzberg 1987).

Organizational learning is a vital part of the strategy process (Mintzberg and Waters 1985). In international establishment, learning might be an even more crucial aspect, as companies are new to local conditions. If a company lacks experience in a certain geographical area, gaps might occur between activities and outcomes. These gaps will, through experience and learning, add knowledge to the firm, resulting in decreased gaps over time. Theory suggests that hiring a local person, with knowledge of local circumstances, may speed up the learning curve and knowledge building. Though, the local hired person is less likely to possess enough knowledge about his or her new employer, especially as they belong to different cultures. In other words, a new problem arises (Johansson 1994).

There are two well established learning models (e.g. Argyris 1977, Heracleous 2003, Child 2005) that explains organizational learning in terms of *single-loop learning* and *double-loop learning*. Single-loop learning can be seen as non critical reflection and incomplete understanding of actions taken, hence a single loop. In double-loop learning, actions are critically reflected. The added critical reflection brings a deeper understanding, and most often an accurate and lasting effect, to the actions taken. This quotation explains the difference of single- and double-loop learning:

"The term 'learning from experience' really means learning from reflection on experience" (Boreham 1987)

Single-loop learning is often seen in *strategic planning*, whereas double-loop learning is often achieved in *strategic thinking.*

3.4 Theory Argumentation and Criticism

Basically, we have chosen three schools of theory, where planned strategy and process strategy oppose each other. Each school might be criticized for lacking certain aspects. For example, planned strategy does not account for micro level activities. In addition, reality is not always that simple and cannot be rationalized into simple models. This applies for international establishing as well, since this school tends to favor rational explanations. In addition, the school of rational planning has a strong bias towards a western perspective. Criticism towards the school of process strategy involves the lack of micro perspectives. When studying processes, one is often interested to know how micro-activities occur rather than simply why they occur. We believe that micro-level activities are an important factor to strategy processes. Criticism towards theory of culture involves the methodology aspects. By this, we mean that culture is very complex and rationalization through quantification might simply put cultural and reality aspects out of its context. As culture is a very complex phenomenon, it is hard to take all variables into consideration. The result might be that certain cultural studies might not be as comprehensive as intended.

But above criticism can be seen as an advantages, since the school of planned strategy focuses on what decisions to make on macro level while the school of process strategy keeps focus on how to make decisions at meso, and sometimes even on micro level. Hence, process theory will provide a bridge between macro and micro level, which in our study equals the global and the local perspectives. Our intention is to use theory of rational international strategy to map the companies' strategies and purposes for China. Process strategy will provide a solid ground for analysis of meso- and micro level activities as well as communication and knowledge transfer between the global and local levels in the organizations. The cultural theories of China will be used to identify root causes to specific challenges in China. In addition, international learning theory might explain, what to learn, when to learn, and how to learn, in order to improve strategy implementation. As previously discussed, there is a minimum of research in micro-level interpretative process studies on local areas. Our ambition is to add new theoretical perspectives and dimensions according to chosen abductive methodological approach. This statement was strengthened in the previous chapter.

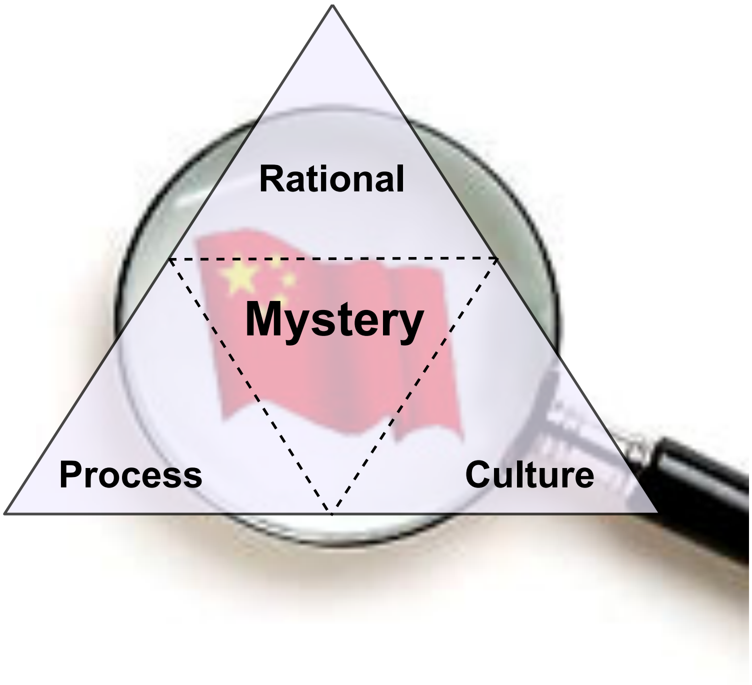


Figure 3: The theory correlation model

Figure 3 shows how the three chosen schools of theory are correlated to each other, and the magnifying glass symbolizes our local Chinese study. The mystery, as seen in the middle, is the lack of theories at micro-level activities, performed at a local area. In addition, the figure shows that parts of the theoretical schools are not relevant to our study. Hence, we are only using relevant aspects of the theories, fit for our local micro-processual study.

4 Empirical Data

In this chapter, the three cases are presented. They constitute the fundament of the thesis. The companies are given the following pseudonyms; the Bank, the Industrial Company and the High-Tech Company.

4.1 Empirical Introduction

Every case starts with a brief company introduction, followed by their strategy, and their purpose in China. The cases continues with identification of challenges or problems, faced by the companies, when implementing their strategy. The challenges, or problems, are followed by responding actions undertaken by the companies. Each case is summarized by the main insights from the empirical findings.

All interviews are held in 2007. To distinguish western people from Chinese people, western people are given western pseudonyms and Chinese people are given Chinese pseudonyms.

Case 1: The Bank

4.2 General Company Introduction

The first case company is a Swedish bank which target corporate customers, institutions and private customers, providing mainly banking services. The organization is divided into divisions and two of these are the Corporate Bank and the Private Bank. The Corporate Bank is responsible for corporate customers and institutions, whereas the Private Bank is responsible for the private customers (The Swedish Bank's annual report 2006, 2007).

Geographically, the Swedish Bank has local retail banking activities in northern Europe. In addition, their corporate banking division has strategic presence in certain countries (The Swedish Bank's annual report 2006, 2007).

4.2.1 Purpose and Establishment of the Bank in China

One of the strategic countries is China. The Corporate Bank, which will further on be referred to as the Bank, has a branch in Shanghai, which is the main object in this case. The Shanghai branch was opened in 2005 and today the organization consists of sixteen employees, where thirteen are locally employed and the remainder are expatriates (Bultén, Hovman). The trigger to establishing a branch in Shanghai was that many of the Bank's home market customers were investing and establishing in China. The purpose of the Shanghai branch is to support their existing home-market corporate customers and to strengthen the brand of the Bank. Practically, this means to supply financial products as well as expertise on local economic conditions and general business advises, concerning China (Rosén, Stillberg, Bultén). The establishment of the Shanghai branch started with a market research. Thirty interviews were performed, among the existing home-market customers, at home and locally in China, to create a base of knowledge and a purpose to the future branch in Shanghai. This was followed by a one and a half year visibility study, to investigate the Chinese authorities and the license application procedure. To do this, Rosén and Bultén set up a feasibility team of approximately ten persons, including internal China experts and customer relationship experts, as well as external China experts such as KPMG consultants. The feasibility study was presented to the board of directors at the Corporate Bank, in order to gain early commitment (Rosén, Bultén).

The strategic locations around the world are clearly included in the corporate strategy of the Bank. Presence should be established where sufficient demand can be met by their home market-customers (Rosén, Stillberg, Bultén).

4.3 Local Challenges in Strategy Implementation at the Shanghai Branch

4.3.1 Challenge with the Labor Market

The Shanghai branch experiences a challenge in recruiting employees. The supply of people in the labor market, with satisfying competence and experience, is very limited. Since the Shanghai branch aims to serve existing customers from their home market, they want employees with experience of western thinking and understanding. The branch is rather small, which requires wider competence of each employee. As in any smaller organization, each individual becomes more important. It is also hard to attract employees to a small organization, since many local Chinese people tend to value career opportunities at larger banks (Rosén, Stillberg, Hovman).

When it comes to retaining employees, the Shanghai branch does not see any problems even though they have heard that the phenomenon of job-hopping is a general problem in China. So far no employees have left the branch since the start in 2005 (Hovman).

4.3.2 The Labor Market: Organizational Response

In order to give better service to the North-European customers in China, the Shanghai branch tries to recruit employees with experience of foreign banking, thus work experience with western people and culture is highly valued. Furthermore, the branch prefers to recruit employees with good knowledge in English for better communication possibilities. So far the Shanghai branch has used professional headhunters, to a certain extent, in order to find qualified personnel (Hovman).

As mentioned previously, the Shanghai branch has never experienced resigns. The Bank claim to practice a Swedish management style, where the expatriates see themselves as coaches, who delegate tasks and authority all the way down in the organization. According to the branch, the Swedish management style is famous for keeping employees. But the branch has heard, ever since they got to Shanghai two years ago, that there would be a lot of resigns and that it would take three generations before it is possible to keep local employees (Hovman).

The Bank considers itself to have a business culture with focus on comfortable but challenging environment, fun at work, fellowship among the employees, but also possibilities to international business traveling, and the possibility to individual development. Education is central, hence the branch provides the employees with further high education. According to the Bank, no specific or unique actions have been taken especially for China in this matter, although they believe that these responses help to retain their staff (Hovman).

“We kind of have to bite the bullet and pay for such things, otherwise we will not keep our employees. That is how it is at the Bank.” (Hovman)

The Bank highlights the importance of finding the connection between the Scandinavian values, the Swedish management style, and what the Chinese people like (Bultén).

4.3.3 Challenge with Local Communication

There is a common view, both among western and Chinese employees, of the existence of communication problems. These problems are defined as transferring of information between expatriates and local employees at the Shanghai branch. These problems utters in language barriers, cultural barriers, and value barriers (Hovman, Ming).

"Sometimes, I find it challenging to work with Chinese colleagues. And we have our tussles." (Hovman)

"Sometimes, we meet cultural problems because the western culture and the Asian culture are so totally different. Sometimes we cannot understand why those western guys do like that. Off course, they say the same. But after two years of corporations, we are getting closer. I think that it is a very good development." (Ming)

According to the expatriates, the customers share their view regarding communication problems, involving culture, values, and language, between western people and Chinese people (Hovman).

"To our customers, China is that strange market, characterized by regulations, strange language, the strange signs, and such things." (Hovman)

4.3.4 Local Communication: Organizational Response

The communication aspect is, as previously mentioned, already considered in the recruitment phase. Despite this, the expatriates feel the need to control and transform certain behavior into what the Shanghai branch sees as the recipe for success, when handling customers.

Banking in China differs widely from banking in Sweden, and since the customers origin in northern Europe, the management feels the need to re-direct the organization by adapting other cultural values (Bultén). For instance, the Bank wants the employees to think critically and to question if necessary. The employees' language skills, values and culture is not only important when treating customers but also when it comes to internal communication (Hovman).

Furthermore, the Bank claims to practice Swedish management style, which equals openness. They would like to receive the employees' opinions and suggestions to facilitate a foundation for management decisions. To persuade the Chinese employees to further express opinions, the expatriates try to explain that opinions will not be punished. Instead, the management emphasizes on sending a message to the employees, that contributed ideas are appreciated and needed in order to make decisions. The open culture might be difficult to understand among the local employees. In general, the Swedish mindset is focused on discussions and opinions whereas the rather closed Chinese culture, according to the expatriates, is rooted in the Chinese history (Hovman).

"In the last 50-60 years, China has not exactly encouraged people to have free opinions and to discuss things. There has never been any reason in expressing one's meaning straight out in China. When the people has done so, terrible things have happened." (Hovman)

To further ease communication and to increase cultural understanding, the Shanghai branch has in one occasion organized a conference with an external communication expert. (Hovman).

The Chinese culture says that individuals should not have another opinion than authorities, in this case the general manager (Hovman). For that reason, the expatriates show a great deal of respect towards the local employees to avoid anxiousness in expressing their own opinions. Also, the forum must be considered, for instance a group meeting with several people might not be the best solution. Compared to western culture, it is almost impossible to get silence in group meetings, since the general view is that everybody has the right to express opinions. This is not the case in the Asian culture. In China, all eyes are on the manager and on the decision maker. However, the Bank is trying to change this behavior, step by step (Bultén).

Another finding made by the Shanghai branch is that Chinese employees at customer companies prefer talking to Chinese-speaking persons when contacting the branch. In general, the Chinese does not feel comfortable when they have to speak English. To solve the language confusion, the Shanghai branch has hired local Chinese employees, to give service to Chinese employees at customer companies. It is important that customers feel comfortable, that they can ask questions and understand the entire conversation. The western employees at the branch are normally in charge of the relations with the western people at the customer companies and vice versa. Normally, the organizational structure at customer companies look like the Bank's structure, where the management, CEO and CFO are expatriates and the rest of the organization consists of local Chinese (Hovman, Gren).

4.3.5 Challenge with the Chinese Authorities

To the Bank, the Chinese authorities are seen as an obstacle to implement strategy (Ming, Bultén, Hovman, Rosén, Stillman).

"In China, business is different. The regulations make it impossible to do business like in Sweden." (Ming)

"China is an emerging market. But it is a strictly regulated and undeveloped market. This brings a lot of limitations in doing business. For instance, when you legislate in our culture, the meaning is always very clear and people tend to follow these laws. Here, the legislation is very unclear and there is interpretation precedence to the authorities. This means uncertainty

in what is allowed and what is not. This is a bit challenging. But over time, you learn. You go from frustration to acceptance, that this is the way it is here." (Bultén)

A RMB-license is needed in order to deal with the local currency, Renmimbi (RMB). The Shanghai branch must show profitability in a two-year streak out of three, in order to receive this license. As customers demand loans in local currencies, lending is a primary aspect of the Banks strategy. Hence, the need of a RMB-license becomes a challenge when implementing strategy in China. In addition, the non-permission of lending in RMB contributes to the challenge to become profitable (Bultén, Hovman).

"We are not even allowed to deal with the local currency. This is totally absurd. To be a bank in a country, and not have permission to deal with the local currency..." (Hovman)

Further more, the prerequisites for banking is in constant change with new emergent rules and regulations (Bultén, Hovman).

"For instance, now they have restricted new lending, which is never heard of in any other country. Sorry, but that is it. No more lending. The banks have no permission." (Hovman)

Another example of the difficulties in strategy implementation, due to the legal system, is that China lacks a clearing system. This forces the Bank to do like every other bank in China and use old-fashioned bank checks (Hovman).

4.3.6 The Chinese Authorities: Organizational Response

As the banking rules and regulations tend to change fast and often, strategies are adapted to these local conditions. The main strategy, to fully support the customer, will not be implemented until one year from now, when the Bank gets the RMB-license (Rosén, Bultén). There is a challenge in being profitable when waiting for the RMB-license (Bultén).

The Bank practices RMB-lending via partners, but they are limited in their actions. They also practice lending in other currencies. Unlike the home organization, the Bank provides business consultancy services regarding Chinese business life, economy, and culture (Hovman, Gren). In addition, resources are re-allocated to brand building and marketing activities, to be prepared for the RMB-license (Hovman).

The reason why the home organization understands the Shanghai branch's situation is first, that the communication between the Shanghai branch and the home organization is smooth. This can be explained by the organization's less formal communication culture (Rosén), and also by the presence of Rosén, the former Hong Kong branch director, as a management member of the Corporate Bank as well as in the Bank's Asia Supervisory Board. Rosén also possess more than seven years of experience in Asia. Second, the owners of the Bank have a genuine interest in China. They have been engaged in Chinese business for more than twenty years (Rosén, Bultén, Gren). The Swedish board-members commitment in China can be manifested through their personal meetings with important Chinese officials. (Rosén, Bultén, Hovman, Gren). Pictures taken at those meetings are seen at walls, at the Shanghai and Beijing offices (observation).

The Bank is dependent on certain key employees with good guanxi towards the authorities as well as customers. They are very anxious to keep this staff, as it would cause difficulties if they decide to resign, especially since the Shanghai branch is small. According to the Bank, western people will never get the ability to fully understand and adopt the concept of guanxi. Sometimes the expatriates' only choice is to delegate certain tasks to local Chinese employees, who will execute using their interpersonal relations, guanxi. The Bank claims that it is impossible to be active in China, as a foreign bank, without help from local Chinese employees with personal guanxi and network (Gren).

"If we would lose our key-staff, I do not think that we would have to shut down our business but we would most definitely limp for a while." (Gren)

As service and advisory is a major part of the Bank's strategy, the expatriates at the Shanghai branch feel the importance to develop contacts with other advisors, for instance international law firms represented in Shanghai. These actors provide intermediate contacts and the use of their network enables the Shanghai branch to better serve customers and further assist in matters regarding the authorities (Gren).

"The whole idea, to have an organization here, is that you build competence on the local conditions. And that competence must be communicated upwards and side-wards in the organization. That is the point." (Bultén)

4.3.7 Challenge with Service

"The Bank has come here to support their home market customers. That is the most important reason. To provide high quality service and efficiency." (Ming)

"Service is something that is almost never heard of in this country. And there have been a lot of complaints from companies, which thinks that they get extremely bad service, both from the Chinese banks but also from the international banks, the bigger ones." (Hovman)

The only way for the Shanghai branch to make a real difference in banking, is to provide good service. It has shown that their western way of service also is appreciated among Chinese employees at the client companies. But it is a challenge to get the local Chinese employees to think in western service terms. Still, local Chinese banks cannot compete with the Bank in providing customers with financial services to improve efficiency (Hovman).

4.3.8 Service: Organizational Response

In order to provide service in the way the Bank's customers are used to, the expatriates emphasize the importance of service to the local Chinese employees. The customer should always experience good service in a personal way. For instance, a mechanical telephone voice must be avoided. The employees should take care of the customers and be responsible of the relationship (Hovman).

"We have phone answering guidelines, which is a very detailed procedure, how to answer the phone, how to speak to the customer. Sometimes, regarding some local business, we have to set up our own guidelines. Because my manager will ask me what the guidelines are for such matter. That is good, because if we have confusion, you can go through all these policies and find the right way." (Ming)

4.4 Insights from the Bank

- The authorities and the Chinese banking system are crucial obstacles. The Bank has employees with significant guanxi to overcome these problems.

- Employees with guanxi are crucial to keep in the organization.

- "The Bank culture" which includes business traveling, education, personal development, and fun at work, will help to reduce the job-hopping challenge.

- Communication skills and western experience are among the most important factors when employing new local staff.

- The Shanghai branch claims to have full support and understanding from the home organization, since they in turn have great experience and understanding about the local prerequisites.

Case 2: The Industrial Company

4.5 General Company Introduction

The second case company is the Industrial Company, a private owned Swedish company within the packaging industry. The Industrial Company is world leading within its industry, which is packaging, processing, and distributing provisions. More than 20,000 employees are working at the company in 165 different countries. The company uses strategic partnerships, with suppliers and customers, to develop products for global use. The Industrial Company produces and sells packaging material with compatible machines, which produce the paper material, create the packages, fill the packages, and assemble the packages for distribution. In 2006 the company produced nearly 130 million packages whereas approximately 26 million accounts for China (the Industrial Company's homepage 01-02-2008, Springberg)

The packaging business is based on low margin disposable products, which makes it essential to allocate production close to the end customer. The assembly-line machinery for packaging is highly capital intensive, as it consists of several thousand parts, and the product life cycle is approximately twenty years. The Industrial Company's organizational structure is illustrated on the next page (figure 4). The organization consists of Packaging Solutions and Processing Solutions. Packaging Solutions is divided into three different global divisions, and one of them is Supply Chain Operation (SCO). SCO is responsible for the manufacturing, from sourcing to final product. The products are for instance the packaging material and the assembly-line machinery which fold and fill the packages. SCO is working towards Commercial Operations, which is their link to the market, and towards Development and Engineering, which develops the products that should be manufactured. SCO itself is divided into four different parts where Capital Equipment (CE) is a global function that produces the heavy machinery for manufacturing. CE China's mission is to lead and manage sourcing for global delivery of heavy machinery, and since CE China is focused on sourcing (Ohlzon), it will further on be referred to as the Sourcing Function. The Sourcing Function is the main objective in this case. The Sourcing Function sources materials and modules from a numerous of Chinese suppliers, to supply the global CE with material to produce heavy machinery. The Sourcing Function cooperates closely with their suppliers to make sure they use the proper raw material. They also introduce production processes to their suppliers, in order to control the outcome (Ohlzon, Helsing).

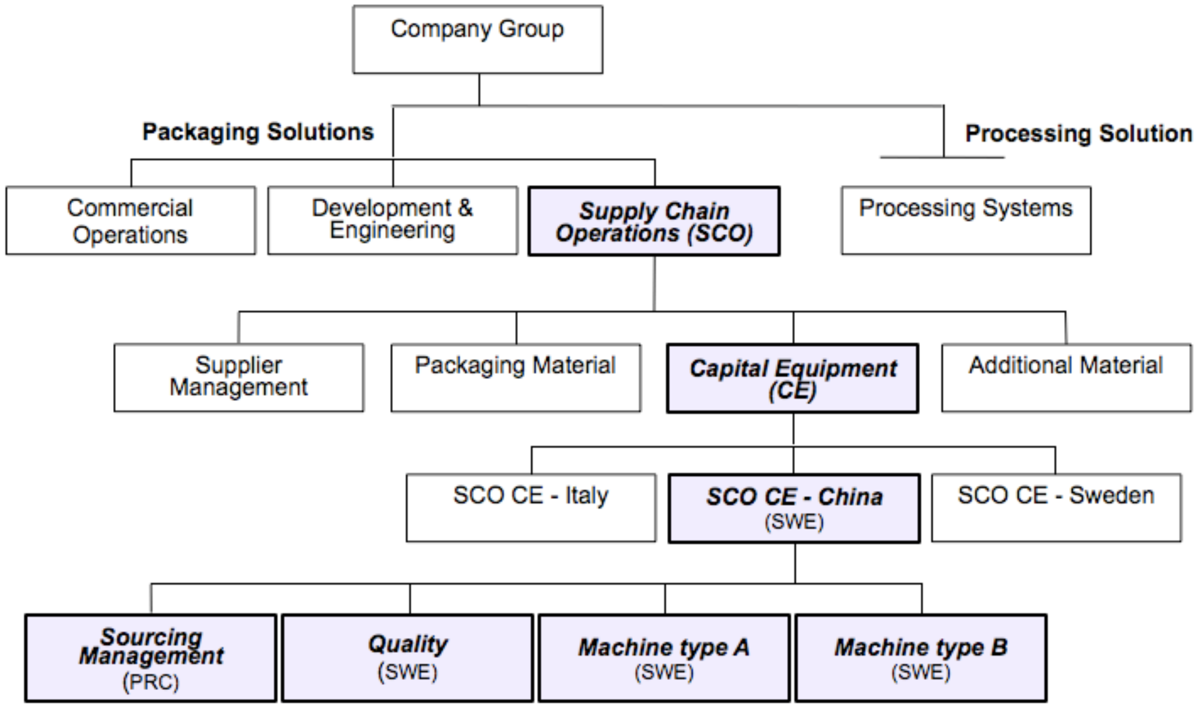


Figure 4: Organizational chart to visualize the relation between the global organization and the Capital Equipment. The nationality of each function manager is marked in brackets by either PRC or SWE.

4.5.1 Purpose of the Sourcing Function in China

The reason why the sourcing function is established in China is based on three main issues. First, as a result of the declining US Dollar, the top management of the company group felt an urgent need to decrease their dependency of the US Dollar. The cause to the problem was that sales were mainly in US Dollars and purchases were in Euros. By sourcing in China, this exposure was better balanced, since the Chinese currency, RMB, is referenced to a currency basket, consisting of four different currencies, including the US Dollar. Second, many competitors produced their machinery in China, hence enjoyed vast cost benefits. By producing in China and source raw materials from local suppliers, to sell on global basis, competitiveness would increase. Third, China is the Industrial Company's largest market, and by being close to their key market, other cost benefits could be obtained, such as decreased transportation costs (Ohlzon, Helsing).

The Industrial Company's strategy involves savings and cost cutting targets, which should be obtained by 2010. In China, it costs twenty to thirty percent less to source and produce machinery and forty to fifty percent less to source spare parts. Since CE started to focus on low cost country sourcing, instead of sourcing and producing in Sweden, substantial savings could be achieved, hence contribute to the corporate strategy and increase competitiveness (Bilgren). But the cheap labor is not the only reason for the Chinese establishment. China itself is the company's largest market and good growth potential is evident (Ohlzon).

"Today, China is our absolutely largest market, around 20% of our sales go to China. We also experience cost-savings by shorter transportations when we produce here." (Helsing)

4.6 Local Challenges with Strategy Implementation at the Sourcing Function

4.6.1 Challenge with Quality Skepticism

In the start up phase, the Sourcing Function faced major internal challenges regarding quality skepticism from the home organization in Sweden. People's belief in the Sourcing Function's capability to produce global top of the line machinery, entirely sourced from China, was very reluctant (Ohlzon). Most resistance was evident among the middle management in the home organization. Their disbelief in good quality production was often expressed as a fear of losing their own job in Sweden, even though that threat was and still is not imminent (Bilgren).

"Then, there was very much doubt among those who were not familiar with China. We can't produce in China, the quality is not good enough, and everything from China is poor." (Ohlzon)

"I had as much problem internally as externally because they didn't believe it would work." (Ohlzon)

4.6.2 Quality Skepticism: Organizational Response

The top management had already decided to source and produce machinery in China. They were aware of potential skepticism and reluctance, hence as a first proactive step, a small part of none core technology of the production was moved, and the information shared to the Swedish organization was very limited. This was done to prove that they actually had the capability to source and produce high quality products in China, for the global market. As they gained more experience and managed to prove their ability, other segments and more advanced technology was transferred to China (Ohlzon).

To ensure good quality and to induce confidence in the home organization, they built up a separate organization in China, where one part focused on quality issues. In the beginning, nearly more people worked with quality aspects than sourcing (Helsing, Bilgren).

To further build up confidence in the Swedish organization, the sourcing organization invited people to visit their supplier network in China so they could see and judge with their own eyes. This was a way to reduce their anxiousness about quality aspects in China. The

Sourcing Function has proven that it is possible to source and produce top of the line equipment with substantial savings (Bilgren).

”Now we noticed that many of the best suppliers in China in many cases are better than our European suppliers, quality wise.” (Ohlzon)

To overcome the problem with resistance and disbelief from the home organization, the Sourcing Function in China needed to work with quality issues in a proactive way to ensure good quality at all times. By implementing their own processes at the suppliers and educate in how to use them, good quality has in most cases been achieved. Interestingly, today there is an over belief in possibilities and opportunities in China. Now the Sourcing Function is working in the opposite direction, to communicate a realistic view on what is possible and what is not (Bilgren).

The quality skepticism problem is to a high extent solved by the organizational structure in China. One of the management team members is located in Sweden. He travels to China approximately once a month, and some expatriates in China travels back to Sweden with the same frequency, hence a lot of formal and informal meetings take place to increase understanding and importance of the China operations. This is very important since the home organization is changing continuously, new employees need to be informed and old employees need to be updated (Ohlzon).

4.6.3 Challenge to Prevent Job-Hopping

So far the organization has had modest problem with job-hopping, but the phenomenon is well known and the management team spend a considerable amount of time, thinking of how to keep staff that has been educated in the organization for two to three years. It is not uncommon to find resumes where people have had three to five different jobs during the last five to seven years. In the Chinese people’s view, staying with one employer for more than two years is a long time (Springberg).

The Sourcing Function is a young organization, it has operated for less than two years. At startup, there were only five employees and today they have reached twenty. It would have vast affect on the organization if the problem would emerge, hence their HR-process is developed to proactively make sure that the competence stays within the company. They focus on retaining their staff, instead of just accepting the existence of job-hopping (Springberg).

Employee turnover is also a criterion used when evaluating a potential supplier. In their point of view, it is impossible to work with a company that suffers from job-hopping. (Helsing).

“It doesn’t work to obtain the quality of a product if you work with a company like that.” (Helsing)

"If we had that problem internally it would have vast consequences." (Helsing)

4.6.4 Job-Hopping: Organizational Response

The employees at the Sourcing Function believe that the root cause of job-hopping is money, which is an important factor for Chinese people since the social welfare is very limited in China. Additionally, the Chinese culture stresses the importance of relationship with the family. It is important to help and support the family as a result of the government's one child policy, which in turn puts social pressure to be successful, get recognition and frequent promotion, on that child. In China, this might correlate with job-hopping. These cultural differences are a challenge for the western part of the management but to understand them is vital in order to proactively prevent job-hopping (Springberg).

By hiring people that fits into the Sourcing Function's structure, open-minded people with the ability to exercise critical thinking in an open dialogue, the risk of exposure to job-hopping can be decreased (Springberg). Also by providing the possibility to international traveling and the taking and giving of responsibility, especially at low level, they intend to keep the employee turnover at a satisfying level. For instance, most of the employees have already been to Sweden (Helsing).

4.6.5 Challenge with Local Communication

"- When can it be done? Nobody answered. So I asked: ′-Can it be done in 14 days?′ And they said yes, but it wasn't done fourteen days later. So then we figured out that we probably needed to take some action." (Bilgren)

"We agreed on a deadline and when the day came it wasn't done. We didn't have the same picture of what a deadline was. I need to understand how they think."(Helsing)

The Sourcing Function has experienced many problems regarding communication difficulties between Swedes and Chinese. These problems were partly based in language confusion, with dissimilar definitions of certain words, such as "deadline". The Swedes in the local management have come to an understanding that they need to be more clear in their communication and also that the Chinese employees appreciate to work with guidelines and processes (Hao, Springberg). The concept of autonomy, to delegate tasks and responsibility, has shown to be less successful (Springberg).

4.6.6 Local Communication: Organizational Response

As a first step to conquer the communication problem the entire local organization engaged in a two days cross cultural course to better understand each others behavior and interpretations of specific terminology that they use in their daily work. This has helped to ease up the communication and to avoid misunderstandings, but there is still much to do. The understanding has also improved after appointing a Chinese colleague onto the management team (Hao, Helsing, Springbert).

"When I give instructions today, I am much clearer. When I write an e-mail I put it in bullets, 1, 2, 3, 4, 5. But even here is a risk, because if I forget number 6 it would probably not be done because I didn't say so."(Springberg)

Instead of communicating via directions, the management uses coaching to a further extent, which includes additional but shorter deadlines and discussion of problems as they occur. They want to create more participation and dialogue to make the Chinese employees execute number six, even if it was not told explicitly. By asking the questions differently, greater participation can be achieved (Helsing, Springberg). It is very important to communicate directives carefully, since dignity and face is an important part of the Chinese culture. Such a careful approach makes it impossible for the Sourcing Function to apply global processes for formal control systems (Bilgren, Springberg). Also external professionals have been engaged to make the Chinese employees more outgoing and to encourage critically thinking (Bilgren).

"We need to have much better understanding of how the Chinese are thinking and at the same time they must understand how we think." (Helsing)

The Sourcing Function encourages expatriates to take Chinese-classes. It is not obligatory, but the Chinese employees seem to appreciate the expatriates' ability to perform some communication in Chinese (Springberg).

4.6.7 Challenge with Copying

As the Sourcing Function started to collaborate with Chinese suppliers, they faced the problem of how to deal with highly sensitive and confidential material such as drawings for the machines. Traditionally, the company works with global processes. This includes providing the suppliers with full access to the database of drawings. It has been possible since many of the suppliers in Sweden have cooperated with the company for over 50 years, hence they have built up a lot of experience and trust. If a drawing is incorrect or any detail is missing, the suppliers can by their own initiative correct the error (Helsing, Ohlzon, Springberg). In China, this process is not possible and must be addressed very differently since the risk of being copied is imminent. First, most of the suppliers are all new and do not know by experience how the Sourcing Function is working. Second, there is a lack of trust since the relationships with the suppliers are new and there is an overall fear of being copied in China, hence drawings cannot be shared. Internally, everyone in the Sourcing Function have access to all drawings, which probably is quite unique (Hao, Helsing, Ohlzon, Springberg). It is a way for the management to show trust in the employees. But other parts of the company, for instance Commercial Operations, experiences very strict control of who gets access. The Sourcing

Function has seen examples from other divisions, where employees have stolen drawings to establish their own factory production of spare parts (Helsing, Ohlzon, Springberg).

"Our suppliers in Sweden have got access to all of our drawings, via a database. But that is nothing we do with our Chinese suppliers, just because of the fear of being copied. It's very common in China and that goes for internally as well."(Helsing)

4.6.8 Copying: Organizational Response

The Sourcing Function is not using full range suppliers, instead they deliver modules, which constitutes a fraction of the total machine. They then assemble the finished product at the local site, thus preventing from being copied (Ohlzon). To further protect the production process, none of the Chinese suppliers have access to the drawing database as the global process suggests (Helsing).

4.6.9 Challenge with Global Processes that do not Fit China

The company is developing and working with global processes. They are important communication tools for how operations should be driven all over the world. Until now, in many cases they have been based on European and US market conditions. These processes have often been modified to better fit the Chinese conditions, for example because of local legislation, longer pay-back time and drawing access to suppliers. As importance and attention increases for the activities in China, people in Europe and the US have increased their understanding when the Chinese organization needs to deviate from the global processes (Helsing).

4.6.10 Global Processes: Organizational Response

It is an advantage to have expatriates because of their personal relations and network to the process-owners, who often are located in Sweden or in Europe. As always, a good contact network and personal relations help to increase volume of feedback to the process owners (Hao, Helsing, Springberg). The Chinese culture says that before contacting someone, one has to be introduced by a third part. Hence, it is very hard, since the Chinese person is situated in China and the process-owner in Europe. Since they might not have been introduced, this results in that the Chinese person does not take the initiative to contact the process-owner (Springberg).

4.7 General Insights from the Sourcing Function

- Internal quality skepticism in the home organization has slowed down the execution pace of local strategy implementation, as well as increased resources to convince and explain how the local prerequisites work.

- To prevent job-hopping, the Sourcing Function tries to connect the employees' families to the company.

- Internal communication has shown to be a greater challenge than expected, since the challenge became evident along the way. Expatriates and local employees have different definitions of key words, which influences how work is executed.

- Global processes are hard to employ in China since they often are designed to fit a European business context. Quality is a good example of this.

Case 3: The High-Tech Company

4.8 General Company Introduction

The third company is the High-Tech Company, a global joint venture in the high-tech industry. The High-Tech Company develops, produces, and sells innovative lifestyle communication devices. Product life-cycles are approximately two years. The industry is highly capital and knowledge intensive. Global competition is fierce between the five biggest actors in the industry, with additional competitors on local markets (Stjärnquist, Wahlfors).

The High-Tech Company consists of several units. For example, research, development, production, sales, and marketing. The company has in total five development units worldwide. This case is based on the Development Unit located in Beijing, China, which develops products for the global market. The Development Unit is unique compared to other development sites, since they develop products to all three segments of the company. The number of employees at the Development Unit is approximately 1,300 and many of the employees are high-tech engineers (Ringman, Stjärnquist, Wahlfors).

4.8.1 Purpose of the High-Tech Company in China

The High-Tech Company has a vision to provide products which combines powerful technology with innovative software applications. The High-Tech Company's products have a universal appeal, but are diversified into product groups of imaging, music, and business use, to suit the end user (the High-Tech Company's homepage 01-02-2008). These strategic choices are strengthened by co-branding with well-established brand names from the two joint-venture companies (the High-Tech Company's homepage 01-02-2008).

The High-Tech Company's strategy for the Development Unit is cost orientation through low cost development and being close to cheap suppliers (Ringmann). But the Development Unit's strategy is not entirely cost orientated, since China is not being considered as the cheapest low cost country. Further, there are many synergies obtained by locating development and production closely together, which is the case in the High-Tech Company in Beijing (Stjärnquist, Ringmann). For instance, to be able to receive a business license, which enables sales of products in the Chinese market, a company is required to have considerable business activities within the country, according to the Chinese laws (Ringmann).

The strategy also involves labor market aspects. The Swedish universities and institutes of higher education cannot supply the number of skilled engineers that the High-Tech Company demands, while this is possible in China (Ringmann, Hong, Ripa).

"China is becoming a mature market. The development site will probably not be the cheapest development site in the long run. Low cost is not crucial for us when locating development sites, we need the relevant competence too." (Stjärnquist b)

"We cannot grow as much as we would like to, back home in Sweden. We need to grow with a couple of thousand employees in the coming years to be able to build the demanded portfolio. It's not possible, we cannot find that many students in Sweden." (Ringmann)

4.9 Local Challenges in Strategy Implementation at the High-Tech Company

4.9.1 Challenges with Quality Aspects

The Development Unit faces three major challenges with developing products of high quality in China. First, the company needs local quality awareness. Second, there exists general skepticism towards Chinese quality in the home organization (Ringmann, Hong). Third, the Development Unit must ensure that suppliers are able to meet the High-Tech Company's standard requirements. The challenge is more evident when dealing with local Chinese suppliers. Today, approximately eighty percent of the suppliers are located in China and eighty to ninety percent of these are other international companies with factories in China (Zhou).

4.9.2 Quality Aspects: Organizational Response

In the beginning, the former CEO gave specific order to enhance strict quality control in China to ensure quality (Tan Shi). The Development Unit has also implemented a proactive quality control system and constant evaluation of suppliers to ensure proper quality. In practice this work involves in-depth interviews with the suppliers and also supplier training programs. The purpose of the training programs is to teach how the High-Tech Company operates and what is required for a successful cooperation. The close geographical distance to the suppliers contributes to a more effective quality control, since visits can be made regularly and close to quality incidents. In addition, the Development Unit takes advantage of the close geographical distance by letting local hired staff work towards local suppliers, which ease the communication (Zhou). The result is that the Development Unit delivers the highest quality within all the High-Tech Company's worldwide development units (Ringmann, Ripa, Hong). A measurement of this is that the Development Unit has the lowest return rate of failed units (Tan Shi).

4.9.3 Challenge to Prevent Job-Hopping

It is challenging for the Development Unit to retain well-educated employees (Ringmann, Ripa, Brunell, Huo, Hong, Li). The first reason for this is that the Chinese labor market is dynamic and conditions are biased towards the employees (Li). In general both well-educated and low-educated Chinese tend to hop between jobs every one or two years. One reason is the hunt for salary increase (Ringmann). Second, training is time consuming and can be seen as an opportunity cost to actual tasks (Ripa). Training will be even more costly if highly educated staff frequently resign, since their tasks are more complex and their learning curve is longer (Ringmann).

"Job-hopping would affect the business in a very negative way. It's very resource and time consuming to teach new people how we work, it's brain drain. At least two product development projects are required before an employee is self-sufficient. Job-hopping would be devastating for us." (Ripa)

The Development Unit seems to face less job-hopping than other units at the High-tech Company such as Sales, Marketing and Production. As a matter of fact, job-hopping is not yet a problem to the Development Unit. Interestingly, the Development Unit's salaries are below average in the high-tech industry, while salary in the high-tech industry is attractive compared to what engineers receive in general (Ringmann).

"We have attracted people from our competitors, which pay higher salaries than we do. We don't have the highest salaries in the business. Still people join us, willing to decrease their salaries." (Ringmann)

4.9.4 Job-Hopping: Organizational Response

The Development Unit actively works with retaining its employees. First, they have a mentor program, which means that every employee has a mentor. This program offers security and confidence to the new employees, as well as friendship. The new employees tend to ask the mentor and also other Chinese colleagues for advices and even to clarify directives from their manager, instead of approaching the manager directly (Brunell). Second, the Development Unit performs exit interviews with leaving employees. The reason is to map why personnel are leaving and what offer they received from the new employer (Li). A third measure is to offer personal development, career opportunities, education, international traveling, innovative and challenging work tasks, insurance policies, and attractive leave management (Ringmann, Huo, Brunell, Li). Although, a manager claims to feel the need of providing challenging work tasks to the engineers in order to make them stay. But it is also a challenge since the home organization is reluctant to give many challenging projects in fear of being copied (Huo).

The last identified reason, why the Development Unit is not facing severe problem with the challenge, is because the High-Tech Company at the moment is performing very well comparing to many of its competitors. The company shows sound growth in both size and profitability (Ringmann, Ripa, Hong). The Development Unit is aware of that a future decrease in growth and monetary success might affect employee loyalty and arise employee turnover (Ripa, Brunell).

”Chinese generally prefer the winning team, it’s about status, which is important in China.” (Ringmann)

4.9.5 Challenge with Copying

”Every successful product gets copied in a month in China. Just take a look at the high-tech market. There are about 50 local high-tech brands, which offer 100 new products every month. Their product specifications are a blast but the quality is wretched, but it’s ridiculous cheap.” (Ripa)

Copying of products constitutes a challenge to the Development Unit, especially for the largest sub-unit, which is the Software Department. The challenge is evident since the sub-unit is highly knowledge intensive and their source code is very easy to copy if it ends up in the wrong possession (Huo, Ringmann).

4.9.6 Copying: Organizational Response

To deal with the challenge of copying, the Development Unit develops small software modules in China. These modules are sent and put together in Sweden to a unified software program. Later, this program is sent back to the Development Unit in China to be integrated with the end product. The source code in the returned program cannot be traced, hence the risk of copying is minimized (Huo, Ringmann).

4.9.7 Challenge with Local Communication

The challenge with local communication within the Development Unit is expressed in several dimensions. The Swedish expatriates have some difficulties to communicate with the Chinese employees and vice versa. The challenge may derive from both language confusion (Li, Brunell) and cultural differences, where Chinese and Swedes have different perspectives on the actual challenge (Ripa, Brunell, Huo, Ringmann, Hong).

“Still there are such problems, since the Swedes don’t understand Chinese culture and that Chinese sometimes have language barriers, and also, they are not always that open minded.” (Li)

“Communication problems consist of both cultural differences and linguistic misunderstandings. I must be very clear, detailed and do follow up questions to make sure they understand.” (Brunell)

“In China you are used to follow orders, I think it’s affected by culture. Swedes are generally bad at following orders. In Sweden, you always want to know why you’re doing it, it’s important to Swedes. If you don’t know why, the task is diffuse to you. If you’re Chinese you’re not really interested in why you’re doing it, rather what you’re doing and how you should do it.” (Ringmann)

"If the Chinese don't agree with you, they won't argue with you. They follow your instructions anyway, but they will do it more slowly." (Hong)

"Sometimes I feel that something which is very easy for a Chinese to understand is very hard for a Swede to understand. I have to spend more time with Swedes to clear things up." (Huo)

One reason to the communication problems is that the organization is young. One third of the personnel have been employed less than one year (Brunell, Ringmann).

4.9.8 Local Communication: Organizational Response

The active responses to the communication challenges consist of regular manager meetings, individual meetings, and everyday informal meetings. International business traveling and exchange programs for mainly Chinese employees, contribute to language improvement and cultural learning (Ringmann, Brunell, Zhou, Huo, Tan Shi, Li). The Swedish management style is practiced, which emphasizes on active dialogue, debate, and bottom up initiatives. It provides a platform for reducing communication difficulties based on cultural differences (Zhou). The result of these learning activities is harvested in the long-term perspective (Ringmann, Brunell, Zhou, Huo, Tan Shi, Li) and may be negatively correlated with high employee turnover (Brunell, Ripa).

Chinese managers also provide a bridge between the individuals of the Swedish management and the large work force of Chinese engineers. Many Chinese managers have the ability to adapt and understand both western and Chinese management styles, which the latter most Chinese are used to. These managers are often more experienced and it is not uncommon that they have work experiences from international contexts, hence the local Chinese management is relevant to overcome both language and cultural confusions (Huo, Zhou).

"I think that is one of the advantages by being a local manager. We understand what both want to say." (Huo)

The Chinese managers at the Development Unit have also adopted the Swedish management concept of seeing employees as individuals, rather than as a collective unit, to better utilize each individual's capabilities as well as rewarding them individually (Zhou, Ringmann, Li). The managers are also encouraged to promote teamwork (Shi Tan).

Further, English capabilities in addition to relevant competences, are very important when they recruit new personnel, to enable communication improvement (Zhou). In addition the Development Unit sponsors English classes for Chinese employees (Hong, Li). Exchange between different development units is also encouraged. This means that a local Chinese engineer will spend some time in another country to gain international experience and English practice. At the same time the Development Unit in Beijing receives a short-term expatriate, whose management skills can be transferred into the organization (Hong).

Communication challenges are not only based on cultural differences (Li). The large amount of newly hired employees makes it important to be clear, detailed, and to teach them the High-Tech Company's way of working. This can be done through guidelines, checklists and mentors (Ringmann, Brunell, Hong).

4.9.10 Challenge with Home Communication

The main challenge with the Development Unit's communication is to give the home organization a sound understanding about the activities, which are carried out, and how they are executed. In addition, the Development Unit often sees that the home organization has a false perspective and unrealistic beliefs on what is possible to do in China. For instance, in the beginning there was skepticism about Chinese quality (see statement about the former CEO in chapter 4.9.2), and nowadays there is an over-belief in the Chinese organization. These false beliefs probably exist since the Development Unit has proven to be very successful (Ringmann).

"Three years ago an anonymous employee said it's impossible to have operations in China. Today we have more than 1,000 employees and have developed around ten products." (Ringmann)

"The problem is that many back home nowadays think that you can do anything in China and that it will be fine." (Ringmann)

4.9.11 Home Communication: Organizational Response

The formal communication with the home organization is handled via a global strategy process. The process acts as a global communication tool for input and output in order to inform the entire organization. But gaps occur, due to the fast pace of business, and will be corrected the coming year, since the process is continuously running on a yearly basis (Stjärnquist, Ringmann).

In addition, very much communication is informal, outside the planned communication phases of the strategy process, which is especially evident for input. The informal communication helps to maintain flexibility, hence ability to adapt the fast pace of the high-tech industry (Stjärnquist, Wahlfors, Ringmann, Brunell).

Frequent informal meetings take place when managers and engineers from worldwide visit the Development Unit in China. This is an opportunity for knowledge transfer and to learn and teach about China-specific factors affecting the Developments Unit's business (Ringmann, Stjärnquist, Wahlfors, Hong, Zhou, Huo).

Despite these actions the home organization's perspective of China is most often mirrored by the good results delivered by the Development Unit, rather than communication and understanding of China-specific factors (Ringmann).

4.10 General Insights from the High-Tech Company

- The High-Tech Company is concerned about quality, both internal and external. The internal quality skepticism is solved by proving the home organization wrong regarding the possibility to produce quality in China. The external quality, regarding local suppliers, is solved by mainly using other international companies present in China.

- Retaining staff is a challenge, but the High-Tech Company has so far managed well despite paying lower wages compared to the competitors.

- Local communication is a challenge to both expatriates and local Chinese. Both need to spend more time communicating to ensure mutual understanding. It often slows down the pace in the organization.

- Formal communication with the home organization takes place via the strategy process, which is ongoing on a yearly basis. The process involves lower organizational tiers to nurture managers with topics, which they make their decisions on.

4.11 Dimensions of the Challenges

We have seen that all companies face challenges on meso- and micro levels as they implement their strategies in the local area. The possibility to influence these challenges varies. For instance, it is much easier for the companies to influence the challenge of local communication difficulties rather than the challenge with the authorities. Our empirical data also clearly demonstrates that the companies possess different degree of understanding of the challenges they face, no matter what actions taken to solve the challenges in a short term perspective. For instance, all companies have worked out short term solutions to meet the challenges with job-hopping, but only one have committed themselves to deeply understand the phenomenon of job-hopping, hence finding a long term solution to the challenge. It seems that the degree of changeability and degree of understanding of the challenges can help us to explain how companies can be effective in their local strategy implementation. This will be analyzed in the coming chapter.

5 Analysis

In this chapter, our empirical findings will be analyzed on the basis of our theoretical framework. We will present our first model, which characterizes the challenges faced by the companies. The model will be applied to four examples. This is followed by an analytical implication where our second model is outlined.

5.1 Theory versus Reality

Interestingly, our empirical findings reveal that rational sequential theory on planned strategy (e.g. Chandler 1962, Ansoff 1965) and internationalization (e.g. Bartlett and Ghoshal 1989, Porter 1990a) is of limited use since the companies face several challenges on the micro level, as they locally implement their strategies, in China. The reason is that rational models do not take micro activities into consideration, since it leaves many questions unanswered, such as why these activities occur. Our empirical findings demonstrate that reality cannot be explained at the meso- and micro-levels, with these theories. For instance, the Bank could be characterized as a *central hub* configuration, and the Sourcing Function could be characterized as a *coordinated federation*, according to rational models (Bartlett and Ghoshal 1989). This is due to the fact that merely macro aspects are taken into consideration, which is good enough, if investigating an organizational structure. However, the empirical findings unmask theoretical mysteries (Alvesson and Kärreman 2007), which occur when activities and actions, the challenges, are studied at the meso- and micro-levels.

The meso- and micro levels demonstrate that strategies to a certain extent are adapted to local challenges, through emergent strategies (Mintzberg and Waters 1985), contradictory to the planned approach. Process theory explains why emergent strategies occur, for example, in response to challenges. Still, the process theory is not able to explain how adaption occurs at local areas. For instance, all challenges that the companies face can be explained by process theory, but it fails to explain what actions they undertake to tackle these challenges. To effectively tackle a challenge, one must understand the root cause.

To understand the root cause of these challenges, they must first be identified, which can be achieved with process theory (e.g. Pettigrew 1985, Johnson 1987). For instance, the Bank has been working proactively with job-hopping, without having defined it as a challenge. These challenges must be fully understood in its right context, in order to implement strategy. This is done with assistance from the model below (figure 5), which is based on our empirical findings and is distinguished in two dimensions, the degree of *changeability* and the companies *understanding* of these challenges. When the challenge is identified in the model, the root cause of the challenge must be found. This root cause can be identified by using locally specific theories, such as local culture theories (e.g. Hofstede 1994, Chow *et al* 1995). It is important to apply micro-theories to each challenge which applies at the specific local area, hence contingency based. When understanding is obtained, it is important to accumulate this learning by institutionalizing.

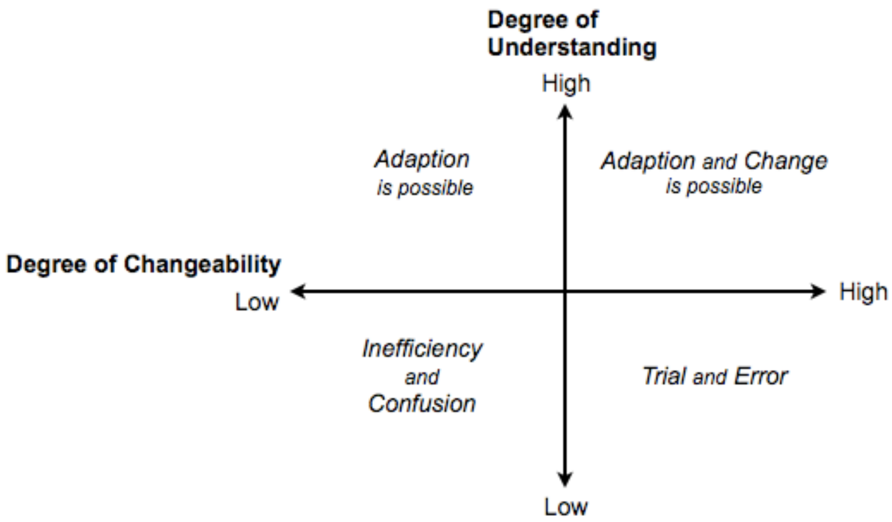


Figure 5: The degree of changeability and understanding of challenges

The local challenges have different degrees of changeability, which means that some challenges are easier to influence than others. At the extreme points on the horizontal-axis a local challenge may be either fully changeable or, by contrast, completely unchangeable if the companies cannot influence or modify the challenge at all. Further, we have discovered that the companies' understanding of the challenges vary to a great extent, which is shown by the vertical-axis in the figure. By high understanding, we mean profound knowledge of the underlying root cause of the challenge.

- *Adaption*: The root cause of the local challenge is understood and the strategy is adapted to the challenge; the challenge is only partly changeable and actions are taken to make the best of the situation.

- *Adaption and Change*: The root cause of the local challenge is understood and the strategy is adapted to the challenge, which changes the appearance of the local challenge.

- *Inefficiency and Confusion*: The root cause of the local challenge is not understood and the challenge is only partly changeable.

- *Trial and Error*: The root cause of the local challenge is not understood and different actions are taken in order to try to minimize the challenge temporarily, instead of finding the root cause; the challenge is changeable.

5.2 Job-hopping: A Changeable Challenge

All companies face the challenge of job-hopping, even though none have suffered badly. Job-hopping is very much a changeable challenge, since the companies can affect its employee turnover by taking certain actions. Interestingly, all companies have different degrees of understanding of the root cause of this challenge. For example, the Bank does not know the root cause of the challenge, and if they would ever face problems with job-hopping, their action would be based on *trial and error*. The High-Tech Company has partial understanding of the root cause, as they are working actively with an integrated management and they practice exit interviews. The management is integrated to enhance a multi-cultural understanding also at high level in the organization and the exit interviews are conducted in order to find the reason why people leave, but still they do not get at the real reason for job-hopping. The people behind the Sourcing Function were aware of the job-hopping challenge already in the establishment phase, hence immediate proactive work was initiated to find the root cause. The management realized that they had to find a sustainable solution to help them in the long term perspective. They decided to connect the employees' families to the company. This is in line with Hofstede's (1984) second dimension, individualism versus collectivism, which helps to understand job-hopping and find a sustainable solution to it. According to Hofstede (1984), it is important in Chinese culture to have a clear sense of collective belonging, where the family has a central role. It also confirms Chow *et al*'s (1995) argumentation on that the family is the prototype to all social organizations in China. The Sourcing Function involves the understanding that individual employees' priorities and interests often go hand in hand with the families' priorities and interests.

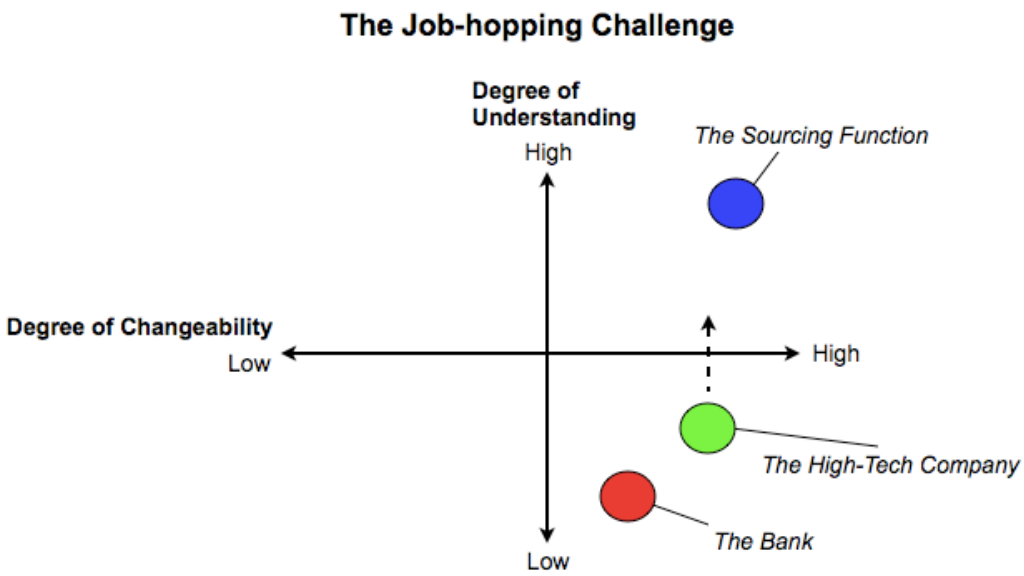


Figure 6: The understanding of job-hopping

From the model, we can see that every company is facing the challenge of job-hopping. But they deal with the challenge very differently, hence show different degrees of understanding. By understanding the challenge, the risk of ending up with job-hopping problems is drastically decreased.

5.3 The Authorities: A Non-Changeable Challenge

Another example is the challenge with the Chinese authorities, which is a non-changeable challenge. All companies need to deal with the Chinese authorities, but it only constitutes a challenge, albeit substantial, to the Bank's strategy implementation. Banking is strictly regulated by the Chinese authorities, which are generally hard to influence, hence they are identified as a non-changeable challenge. However, the concept of guanxi (e.g. Chen and Chen 2004, Hwang and Staley 2005) might in a long term perspective help to make it possible to influence the challenge of the authorities, which makes it partly changeable. To be able to do this, one needs to understand that guanxi, which is built on relations and trust, is crucial in influencing the authorities. Hofstede (1984) and Chow *et al* (1995) also stress the importance to understand that the society is based on unequal relationships between people in the society. Identification of the hierarchy- and power structure is essential to be able to influence to one's own advantage. In our opinion, the Bank has achieved a considerable understanding of guanxi, since their local employees, with interpersonal connections, have shown to be effective in their work with the authorities at certain times. Further, it is of great importance that the Bank has met important Chinese officials. This gives the Bank respect, as they interact with the authorities.

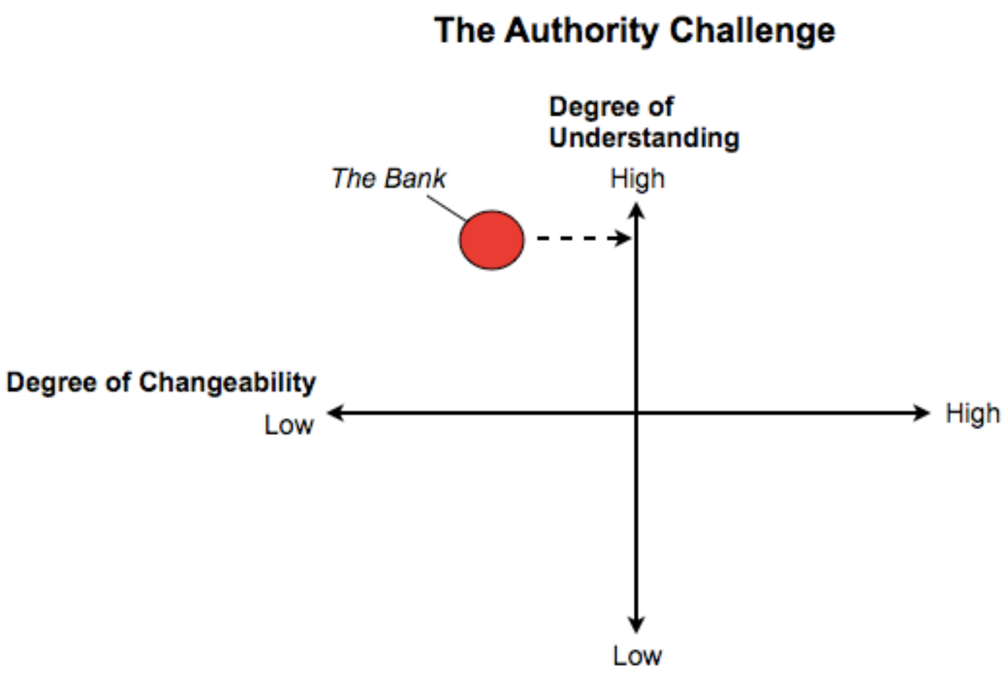


Figure 7: Understanding of the authorities

At first glance, the challenge involving the authorities is seen as not changeable. But through understanding the local micro-theoretical concept of guanxi, it can be partly modified, in terms of more efficient strategy implementation. Guanxi also acts as a proactive tool, as rules and regulations tend to change with short notice in China. This helps to adapt and change when new authority challenges arise. In order to make an unchangeable challenge changeable, as seen in the previous example, full understanding of the challenge is required.

5.4 Local Communication: A Changeable Challenge

The complex challenge of local communication constitutes a problem to all companies. Ever since they established in China, they have all experienced misunderstandings and frustration, which indicates a low degree of understanding of the cultural aspects of communication. Luckily, this challenge is changeable, if the right amount of effort is put into it. All companies experience *trial and error*, but their actions and effort to overcome the problem and achieve full understanding varies to a great extent. The Bank has had limited cultural training and they seem to trust in cultural understanding, gradually acquired over time. Interestingly, both local Chinese and expatriates put the blame on the communication problem, thinking that it is rooted in cultural differences. At the High-Tech Company, the size of the company makes it hard to bring about understanding among all employees. To compensate for the large size and lack of wide organizational understanding, middle management is acting as a bridge since they comprehend “both worlds”. They also use clear guidelines and processes that should compensate for linguistic misunderstandings. The Sourcing Function is the only company that has put a real effort into trying to understand this challenge. For instance, Chinese employees today understand western meanings of words that were previously misunderstood, and vice versa. The results of these efforts are shown in more project deadlines on time and fewer misunderstandings. And since the expatriates also put an effort trying to speak some Chinese, the hierarchy gap to the local staff decreases. Hence the Sourcing Function seems to understand that the root cause lies in what can be explained in Hofstede’s (1994) *power distance,* and the traditional concept of Confucianism (Feng and Shi 2001).

This factor provides many insights on Chinese social norms and values, and how they affect Chinese way of acting in different situation. This insight might help to explain certain problems that companies face in their communication. The reason to the great challenge with the local communication might be since they all, by their open Swedish management style, disturb the traditional Chinese principle of power structure and respect of people in a superior position. Even though, the companies encourage the Chinese subordinates to question and challenge their managers, which is appreciated by the Chinese subordinates, it may cause confusions, hence trig the local communication problem.

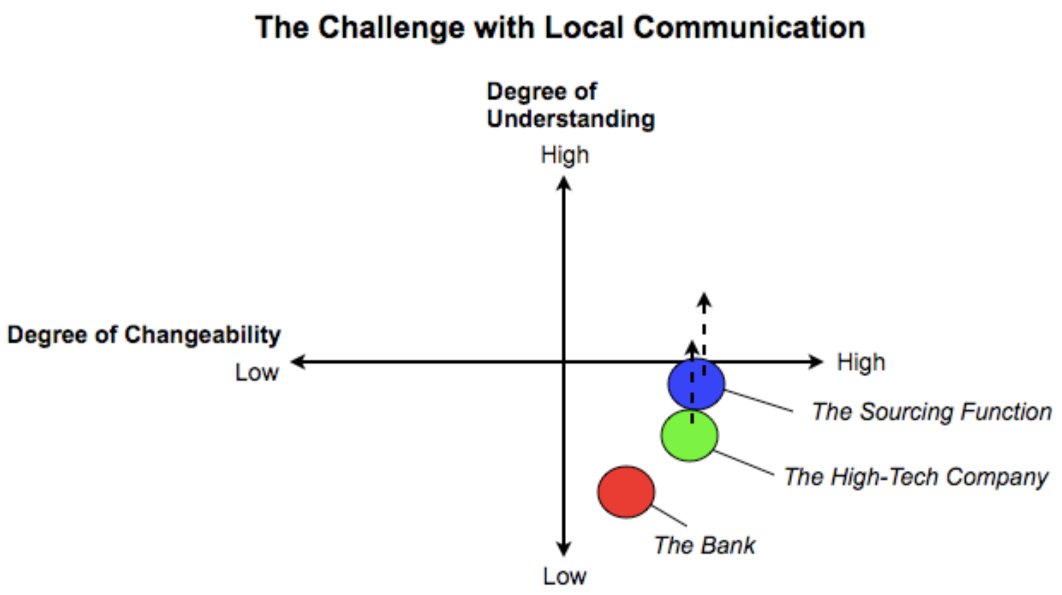


Figure 8: The understanding of local communication

5.5 Home Organizational Understanding: A Changeable Challenge

The Bank has succeeded in creating understanding in the home organization, since micro-studies have been conducted before creating and implementing the planned strategy. These studies were performed by staff in the home organization together with internal and external professionals with the relevant competence on the local area. This shows that the challenge is changeable.

The China-strategy planner in the home organization of the Bank, Rosén, has practical micro-level experience from the current local area. Together with his closest colleague, and with help from local internal and external experts, extensive micro-studies were made on customers, local conditions and authorities before the establishment in Shanghai. This has resulted in extended understanding in the home organization about the local prerequisites. It is maintained continuously, since the home organization communicates on a daily basis with the local branch. However, the challenge is an explicit problem for the Sourcing Function and the High-Tech Company. Their problem with home communication is revealed by their home organization's exaggerated belief in the capability of the local entity. Both cases have gone from utter skepticism to unrealistic over-confidence. The reason for this drastic change is that the local organizations managed to prove them wrong. The problem is that the communication has failed in certain areas, such as how quality and copying affects strategy implementation locally, despite frequent visits from the home organizations in China. Interestingly, even though the High-Tech Company is seventy times larger than the Sourcing Function, we can see that the problem is less evident at the High-Tech Company, as they work with a formal strategy process at all levels in the organization, including strategy planners in the home organization. The Sourcing Function enjoys vast local autonomy and there is very little understanding in the home organization about their operative business activities. Comparing the companies, the Bank had a better proactive startup process. Even if we see that the two other companies today try to work more proactive in their home communication, they still suffer from their rather reactive startup. They are still acting by *trial and error*, as they try to communicate realistic beliefs and perspectives on local challenges, such as quality and copying. This example also demonstrates that challenges are connected and affect each other.

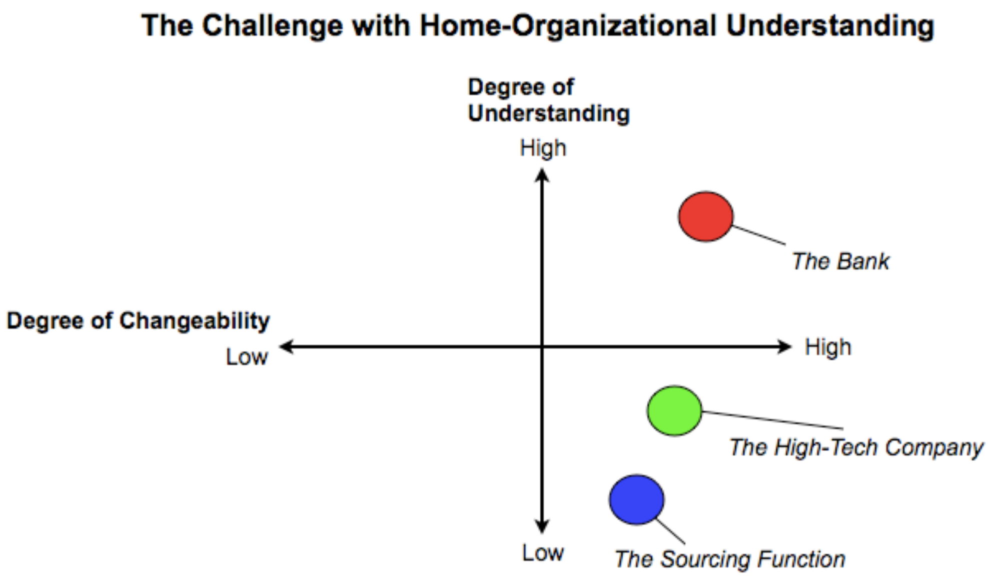


Figure 9: The understanding of home communication

The Bank's high degree of understanding is in line with Johansson's (1994) theory on international learning. Rosén and Bultén became the local agents, which Johansson (2004) stresses as important. In addition, Rosén, a management member of the Corporate Bank and previous head of Hong Kong branch, has the ability to understand both local circumstances and their own organization, which eliminates the drawbacks of Johansson's (1994) local agent problem. Thanks to Rosén and his team, the organization's learning curve started earlier compared to that of the other companies.

5.6 Conceptual Contribution

When we look at the above examples, interesting characteristics emerge. Some challenges hold for all companies and others seem to hold only for one or two companies. Challenges might become evident depending on what industry and organizational function that is investigated. Certain challenges are more industry specific, such as problem with the authorities and copying. Although, local communication difficulties might be more locally specific, as we have seen in China. Each possible challenge needs to be investigated in its appropriate context, in relation to the specific company and situation. Further, some challenges to strategy implementation in China are correlated to each other and the way one challenge is manipulated affects the outcome of another. This wisdom tells us that the root causes of the challenges should be investigated simultaneously. Additionally, as root causes are identified, some challenges can be modified, while other challenges are more fixed.

To be able to adapt a strategy, both the local organization and the home organization must understand the root causes of the challenges, and how to deal with them. Therefore identifying the local prerequisites at an early stage is critical. Early identification facilities accurate learning from experiences based on root cause understanding of the challenge, rather than from experiences from *trial and error.* It is important that learning arises from the right experiences and that these experiences are institutionalized, to foster double-loop learning (e.g. Argyris 1977, Child 2005). To obtain double-loop learning, it is a prerequisite to understand the root cause of the challenge. Learning based on *trial and error* will probably not be as effective. *Trial and error* invites to organizational learning, but it might cause severe implications since the organization risk to learn tainted knowledge, related to their faced challenges. It will be even worse if that kind of learning would be institutionalized. The Sourcing Function serves as a good example of double-loop learning, since several of their challenges are in-depth examined, in search for a root cause.

Institutionalization of learning can partly be achieved by companies that work with global processes, by passing on that method to new organizations in the company. However, some challenges, such as the Chinese guanxi, is hard to institutionalize since the theoretical concept is built on interpersonal relations. Therefore it will be even more important to find the root cause of the challenge, hence institutionalize the theoretical part of guanxi, as well as the practical experiences that the company acquires in this matter. It will then pave the way for a shorter learning curve for people who have no previous experience of the concept of guanxi. It is important to understand that experiences, hence learning, also appear along the way, especially since organizations tend to internationalize their businesses in incremental phases.

An important conclusion that can be drawn from this chapter, as a whole, is that successful strategy implementation in a local area cannot entirely be based on the rational theory models of international strategy implementation. We have also demonstrated that most often rational plans are conducted, followed by creation of processes and guidelines that should enable to meet the local challenges. However, our analysis demonstrates that in order to achieve an effective strategy implementation, instead reversed order should be carried out, which is demonstrated in underneath model (Figure 10).

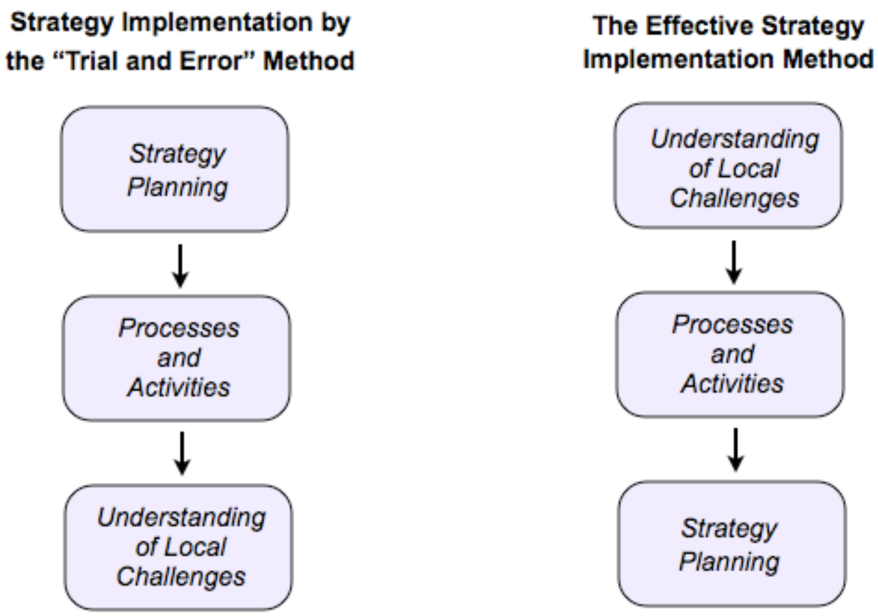


Figure 10: The Effective Strategy Implementation Method Model

We have seen that the theory of rational planning and internationalization might explain general patterns. However, process strategy research reveals that reality is far more complex. Still, these theories cannot explain why challenges occur or how to respond to them. Current research on international strategy implementation is to a great extent explained in the left side of the figure, *strategy implementation by the trial and error method.* Managers following that method will most probably make decisions and plans to strategy implementation on false assumptions, since there will be a lack of knowledge of the root cause of challenges. The trial and error method leaves the organization with single-loop learning, since actions are made to tackle the challenges in a short term perspective.

Instead, companies that intend to invest or expand their business in China, should use *the effective strategy implementation method* to increase probability to face local challenges in an accurate way from the beginning. In practical terms, it means first to identify local challenges that the organization faces, and truly understanding them. Organizational learning, in this case double-loop learning, will enhance true understanding of the challenges and according to us it will most probably take place above the horizontal axis. The double-loop learning constitutes the base to achieve understanding of the root cause of the challenge, and should be obtained as much as possible before any processes are designed, and before strategy is planned. By using the effective strategy implementation method processes, strategic plans will be designed based on profound understanding of the challenge.

It is also vital that organizational learning is evident on a continuous basis to facilitate ongoing strategy processes with local understanding of prerequisites. We view this as *strategic* *thinking* and will help the organization to better institutionalize the kind of knowledge and experiences that is based on understanding and not on *trial and error*. As we have seen, companies do not always seem to see the negative aspects of being in the trial and error field, since it involves learning.

We believe, to prevent costly mistakes, companies need to have the insight in the advantages of reaching a position above the horizontal axis, since it provides learning on the root cause of the challenges that the company face. Understanding of challenges enables companies to plan, which will help them to face the challenges in a more sustainable way. The international strategy implementation in a local area will therefore be effective, both in an initial phase and on a contingent basis, if the new method is used. But it requires double-loop learning at an early phase of implementation. This discussion is illustrated in underneath model, where effective organizational learning can be seen as double-loop learning. Decisions and actions derived from this area, will have a better potential strategy implementation in a long term perspective. But it is also possible to be successful in the trial and error area, hence being efficient. Albeit, it requires that the trial turns out to be successful from the beginning. Otherwise, the organization might end up in trial and error, which in most cases is combined with single-loop learning, hence costly in the long-term perspective.

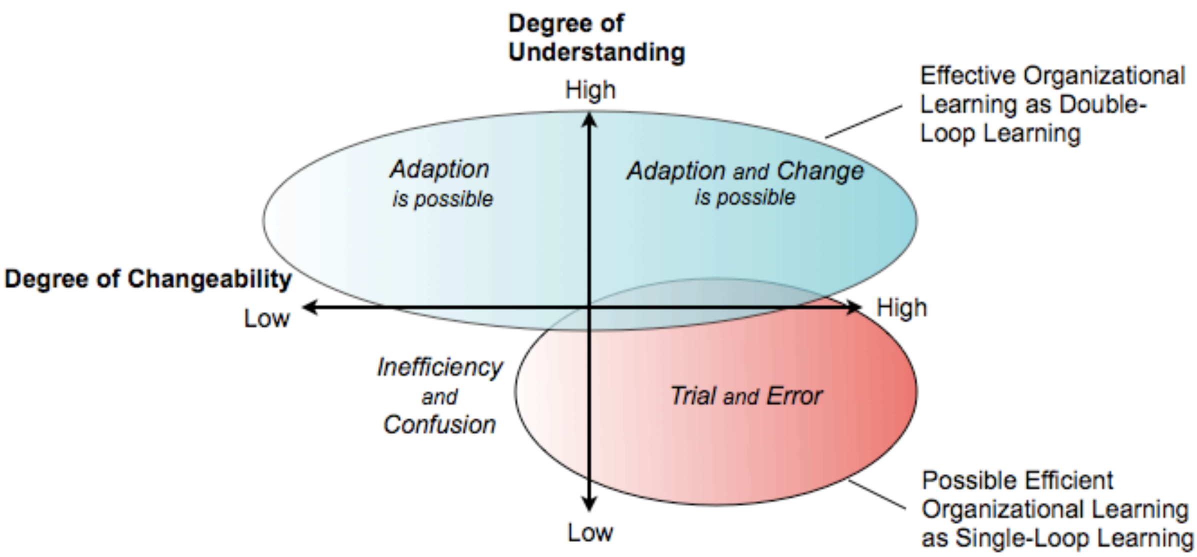


Figure 11: The Achieved Effective Organizational Learning

Further, by using process theory, which means creation of processes or guidelines, helps to act on challenges and further to enable institutionalization of learning, which facilitates continuous work with strategies, both on the local area and the home organization. Of course, it is important to keep in mind that the emergent Chinese economy and market are growing at a rapid pace. As a result, in certain cases there might be a trade-off between understanding and trial and error, For instance, as Delios and Beamish (2004) stress, being late in the market might have the consequence of “missing the train” in the sense of missing first mover advantages, knowledge spillover and business cycles. During very uncertain market conditions it can pay off to catch the train without clear understanding, instead of missing the train. But during these circumstances, companies have to accept the fact of continuous trial and error.

6 Conclusions

This chapter presents our conclusions of the analysis, responses to our research question, and implications for further studies.

It will be of very limit use, and even devastating, to the strategy implementation in a local area, to merely rely on the theories of rational planning and internationalization. Companies that intend to go international have to understand that specific local factors exist. Such factors, as job-hopping, communication difficulties, and the local authorities, are evident in China. In our study, such factors are referred to as challenges. The process theory helps us to understand that there might be emergent factors that organizations need to act on along the strategy implementation process. But our empirical material reveals that companies must clearly, and fully, identify these challenges. What is more, they have to do it as early as possible. It is crucial to understand what challenges are important to a certain industry, in a certain context at a certain point of time.

According to our empirical findings, these challenges are often evident in more than one company. But more importantly, the way the companies approach these challenges differs since their purpose in China differs. Also, functions, industry presence, and size of organization are different within the companies. However, the most critical part is that any organization must have an understanding that they need to identify the root causes of the challenges and how they affect each other. It is not enough to realize that there might be challenges along the way. In addition, it is also vital to decide who must possess these deep understandings about the challenges, and the crucial point of time when these competences and capabilities must exist in the organization. As shown in our study, the understanding of challenges varies from company to company. A high degree of understanding of a challenge, does not necessarily equal high efficiency, hence there might be a trade-off between effectivity and efficiency. Over time, in-depth understanding is crucial for effective strategy implementation.

To enjoy a successful and effective strategy implementation in a local area, it is critical to acquire competence or conduct a study, of micro activities, preferably before any strategy planning, formulation, and implementation. The process will be even better if there is profound understanding both in the home organization, at an early stage, and as well during the implementation phase. This is the best way for a company to enjoy long term double-loop learning and to institutionalize their most valuable knowledge and experiences.

Future trial and error can and should be prevented by focusing on institutionalizing accurate experiences, understandings and solutions to challenges, which will help to increase organizational learning and to increase speed in future strategy implementation. This is important since companies tend to start on small scale in their internationalization process in China, and only later speed up their activities. It is especially important in organizations, which have expatriates on short-term contracts and where job-hopping is an evident challenge.

Our practical and conceptual contribution to business life and to the academic field of international strategy implementation is the generally applicable effective strategy implementation method model. To reach this conceptual conclusion, we have re-modeled relationships between strategy schools, by discarding the traditional perspective of business internationalization and brought in cultural and learning perspectives through a processual approach. By turning these well-established theories up side down, we have encouraged a new perspective of how to use these theories in effective strategy implementation in a local area.

Interestingly, Anna Jonsson, a PhD-student at Lund University School of Economics and Management, just recent presented a study on a similar topic as our. Jonsson's and our conclusions confirm each other through intersubjectivity in that local challenges must be understood within the entire organization, and that local learning might result in global responses through institutionalization (Jonsson 2007).

白马非马

"White is white, and a horse is a horse, but a white horse is not a white horse"

6.1 Implications for Further Studies

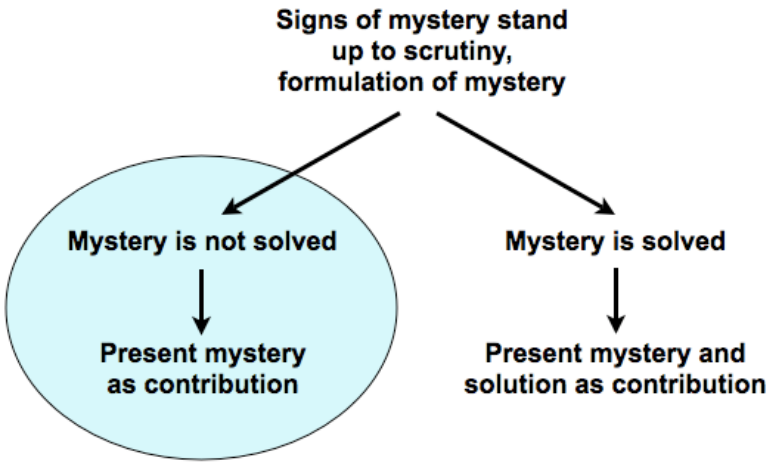


Figure 11: The bottom part of "the Research Process: Decision Tree for Mystery-Focused Research" (Alvesson and Kärreman 2007)

Our empirical data reveals that chosen theory partly can be seen as mysteries, hence left as contribution to further studies. As regards future research, it would be of great interest if it could generalize our findings, especially since today a wider flora of companies invest in China. Therefore, it would be of interest to see to what extent challenges can be generalized to different industries and different organizational divisions and functions.

Our study finds that current theory on strategy implementation in an international context cannot fully explain how managers should act to successfully capture a new market. A theory must also be developed on how international strategy implementation can be made both effective and efficient, related to this study that only focus on effective strategy implementation.

We have chosen China as the object of our study, but challenges on micro levels probably occur in other countries as well, when implementing a strategy. It would be interesting to conduct a comparative study of companies and countries to see to what extent companies face different challenges and how they deal with them to obtain understanding and solution to these challenges.

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Last chapter consist of literature references that has been used during the research process, and other printed sources, such as annual reports. In addition to that the pseudonyms of all interviewees can be found as well as used internet sources.

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Ming, Xi Tu (11-13-2007), Shanghai, China

Stillberg, Nils (10-04-2007), Stockholm, Sweden

Rosén, Claes (10-04-2007), Stockholm, Sweden

7.3.2 The Sourcing Function

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Helsing, Stefan (11-15-2007), Shanghai, China

Ohlzon, Alfred (10-24-2007), Lund, Sweden

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